

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
REGULATORY BASIS FINANCIAL STATEMENTS
AND OTHER REPORTS
FOR THE YEAR ENDED JUNE 30, 2010**

VAN BUREN SCHOOL DISTRICT #42

JUNE 30, 2010

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Independent Auditor's Report

The School Board Van Buren School District #42 Van Buren, Arkansas

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the **Van Buren School District #42** (the "District"), as of and for the year ended **June 30, 2010**, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of **June 30, 2010**, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of **June 30, 2010**, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (page 21), Schedule of Expenditures of Federal Awards (page 22), as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Schedule of Expenditures of State Awards (page 23), Supplemental Data Sheet (page 24), Federal Award Programs – Findings and Questioned Costs (page 26-29) and Federal Award Programs – Summary of Prior Audit Findings (page 25) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Expenditures of Federal Awards (page 22), Federal Award Programs – Findings and

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Questioned Costs (page 26-29) and Federal Award Programs – Summary of Prior Audit Findings (page 25) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (page 21) has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on it.



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October 8, 2010



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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 Van Buren School District #42 Van Buren, Arkansas

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the **Van Buren School District #42** (the "District"), as of and for the year ended **June 30, 2010**, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated **October 8, 2010**. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of **June 30, 2010**, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Van Buren School District #42's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of **Van Buren School District #42's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2010-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Van Buren School District #42's** financial statements are free of material misstatements, 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

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special provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated October 8, 2010.

The District's response to findings identified in our audit, excluding the management letter finding, is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, we express no opinion on it.

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



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Van Buren, Arkansas
October 8, 2010



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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

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The School Board Van Buren School District #42 Van Buren, Arkansas

Compliance

We have audited the compliance of **Van Buren School District #42** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended **June 30, 2010**. **Van Buren School District #42's** 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 **Van Buren School District #42's** management. Our responsibility is to express an opinion on **Van Buren School District #42's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Auditing 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 **Van Buren School District #42's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of **Van Buren School District #42's** compliance with those requirements.

In our opinion, **Van Buren School District #42** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended **June 30, 2010**. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A – 133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-2 and 2010-3.

Internal Control Over Compliance

The management of **Van Buren School District #42** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered **Van Buren School District #42's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 **Van Buren School District #42's** 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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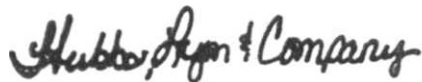
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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-3. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Van Buren School District #42's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **Van Buren School District #42**'s responses and, accordingly, we express no opinion on the responses.

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



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Management Letter

The School Board
Van Buren School District #42
Van Buren, AR 72956

We would like to communicate the following item that came to our attention during this audit. The purpose of such comment is to provide constructive feedback and guidance, in an effort to assist management to maintain a satisfactory level of compliance with the state constitution, laws and regulations and to improve internal control. This matter was discussed previously with District officials during the course of our audit fieldwork and at the exit conference.

The treasurer reported instances of misappropriation of assets within the yearbook activity fund. According to the treasurer, Van Buren Police arrested an employee, who was terminated, on suspicion of theft of cash in the amount of \$9,157.39 in July 2010. As of report date, law enforcement agencies, in conjunction with the School District, have an ongoing investigation of this matter.

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

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October 8, 2010

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**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Funds			
	General	Special Revenue	Other Aggregate	Fiduciary Type Funds
ASSETS				
Cash and cash equivalents	\$ 9,336,897	\$ -	\$ 10,328,121	\$ 114,807
Accounts receivable	17,656	2,190,866	3,176,100	-
Prepaid insurance	1,682	-	-	-
Deposit	2,500	-	-	-
Due from other funds	152,096	-	-	-
Interest receivable	8,239	-	9,491	-
	<u>8,239</u>	<u>-</u>	<u>9,491</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 9,519,070</u>	<u>\$ 2,190,866</u>	<u>\$ 13,513,712</u>	<u>\$ 114,807</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 44,576	\$ 812,168	\$ 1,917,818	\$ -
Deferred revenue	1,383,830	-	-	-
Use tax payable	4,567	181	-	-
Due to other funds	-	152,096	-	-
Due to student groups	-	-	-	114,807
Total Liabilities	<u>1,432,973</u>	<u>964,445</u>	<u>1,917,818</u>	<u>114,807</u>
Fund Balances:				
Reserved:				
Capital projects	-	-	11,595,894	-
Unreserved:				
Undesignated	<u>8,086,097</u>	<u>1,226,421</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>8,086,097</u>	<u>1,226,421</u>	<u>11,595,894</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,519,070</u>	<u>\$ 2,190,866</u>	<u>\$ 13,513,712</u>	<u>\$ 114,807</u>

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

VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Funds		
	Major		
	General	Special Revenue	Other Aggregate
REVENUES			
Property taxes	\$ 14,917,638	\$ -	\$ -
State assistance	29,650,996	20,033	3,316,587
Federal assistance	36,298	11,005,047	-
Activity revenues	665,922	-	-
Meal sales	-	681,061	-
Investment income	169,809	-	191,868
Refund prior year's expenses	18,478	-	-
Other revenues	410,113	10,945	-
TOTAL REVENUES	45,869,254	11,717,086	3,508,455
EXPENDITURES			
Regular programs	18,629,977	85,669	-
Special education	2,972,434	1,131,291	-
Workforce education	992,819	-	-
Adult/continuing education	485,002	388,517	-
Compensatory education	513,100	1,876,421	-
Other instructional programs	825,635	1,462	-
Student support services	1,756,564	282,255	-
Instructional staff support services	3,390,060	2,572,067	-
General administration support services	1,154,957	54,887	-
School administration support services	2,291,232	-	-
Business support services	871,781	-	-
Operation and maintenance of plant services	4,695,543	4,376	5,454
Student transportation services	1,441,329	-	-
Other support services	37,456	-	-
Food services operations	25,973	2,576,857	-
Community service	869,892	20,862	-
Facilities acquisition and construction services	-	-	2,740,695
Building acquisition and construction	-	-	1,093,784
Building improvement services	-	1,128,388	1,678,824
Site improvements	-	-	2,602
Non-programmed costs	1,497	69,631	-
Activity expenditures	524,492	-	-
Debt service:			
Principal retirement	196,483	-	1,110,000
Interest and fiscal charges	25,325	-	3,006,036
TOTAL EXPENDITURES	41,701,551	10,192,683	9,637,395
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,167,703	1,524,403	(6,128,940)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	4,574,974
Transfers out	(3,676,607)	(898,367)	-
Insurance proceeds	4,657	-	-
Proceeds from sale of bonds	-	-	40,895,000
Bond issue costs	-	-	(713,861)
Refunding of bonds outstanding	-	-	(36,825,000)
Refunding savings	-	-	61,985
Proceeds from sale of equipment	12,780	-	-
Donations	-	-	24,000
TOTAL OTHER FINANCING SOURCES (USES)	(3,659,170)	(898,367)	8,017,098
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	508,533	626,036	1,888,158
FUND BALANCES - JULY 1, 2009	7,577,564	600,385	9,707,736
FUND BALANCES - JUNE 30, 2010	\$ 8,086,097	\$ 1,226,421	\$ 11,595,894

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

VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
REVENUES						
Property taxes	\$ 14,575,931	\$ 14,917,638	\$ 341,707		\$ -	\$ -
State assistance	29,064,777	29,650,996	586,219	20,606	20,033	(573)
Federal assistance		36,298	36,298	12,172,247	11,005,047	(1,167,200)
Activity revenues	16,000	665,922	649,922		-	-
Meal sales		-	-	858,700	681,061	(177,639)
Investment income	75,000	169,809	94,809		-	-
Refund prior year's expenses		18,478	18,478		-	-
Other revenues	125,654	410,113	284,459		10,945	10,945
TOTAL REVENUES	43,857,362	45,869,254	2,011,892	13,051,553	11,717,086	(1,334,467)
EXPENDITURES						
Regular programs	18,923,825	18,629,977	293,848	87,784	85,669	2,115
Special education	2,991,475	2,972,434	19,041	1,485,834	1,131,291	354,543
Workforce education	1,067,686	992,819	74,867	60,000	-	60,000
Adult/continuing education	473,540	485,002	(11,462)	88,500	388,517	(300,017)
Compensatory education	597,374	513,100	84,274	1,941,073	1,876,421	64,652
Other instructional programs	856,623	825,635	30,988	15,662	1,462	14,200
Student support services	1,708,996	1,756,564	(47,568)	361,310	282,255	79,055
Instructional staff support services	3,313,606	3,390,060	(76,454)	3,861,654	2,572,067	1,289,587
General administration support services	1,099,830	1,154,957	(55,127)	81,793	54,887	26,906
School administration support services	2,309,902	2,291,232	18,670		-	-
Business support services	876,323	871,781	4,542		-	-
Operation and maintenance of plant services	6,053,268	4,695,543	1,357,725	10,000	4,376	5,624
Student transportation services	1,386,468	1,441,329	(54,861)	456,000	-	456,000
Other support services	10,000	37,456	(27,456)		-	-
Food services operations	29,926	25,973	3,953	2,415,261	2,576,857	(161,596)
Community service	869,211	869,892	(681)	35,717	20,862	14,855
Facilities acquisition and construction services		-	-		-	-
Building acquisition and construction		-	-		-	-
Building improvement services		-	-	1,673,427	1,128,388	545,039
Site improvements		-	-		-	-
Non-programmed costs		1,497	(1,497)		69,631	(69,631)
Activity expenditures	73,190	524,492	(451,302)		-	-
Debt service:						
Principal retirement	195,841	196,483	(642)		-	-
Interest and fiscal charges	25,969	25,325	644		-	-
TOTAL EXPENDITURES	42,863,053	41,701,551	1,161,502	12,574,015	10,192,683	2,381,332
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	994,309	4,167,703	3,173,394	477,538	1,524,403	1,046,865
OTHER FINANCING SOURCES (USES)						
Transfers in	22,391,969	-	(22,391,969)	30,381	-	(30,381)
Transfers out	(26,510,528)	(3,676,607)	22,833,921	(902,959)	(898,367)	4,592
Insurance proceeds		4,657	4,657		-	-
Proceeds from sale of bonds		-	-		-	-
Bond issue costs		-	-		-	-
Refunding of bonds outstanding		-	-		-	-
Refunding savings		-	-		-	-
Proceeds from sale of equipment		12,780	12,780		-	-
TOTAL OTHER FINANCING SOURCES (USES)	(4,118,559)	(3,659,170)	459,389	(872,578)	(898,367)	(25,789)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,124,250)	508,533	3,632,783	(395,040)	626,036	1,021,076
FUND BALANCES - JULY 1, 2009	7,577,564	7,577,564	-	600,385	600,385	-
FUND BALANCES - JUNE 30, 2010	4,453,314	8,086,097	3,632,783	205,345	1,226,421	1,021,076

VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District 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 District. Using the criteria of financial accountability, there are no component units that are or should be included in the District's report entity.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be reported in another fund.

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

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Fund types include the following:

Agency Funds - Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

C. Measurement Focus and Basis of Accounting

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

**VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

C. Measurement Focus and Basis of Accounting (Contd)

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

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

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1, F).

E. Capital Assets

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

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

Description	Estimated Useful Life in Years
Buildings & Improvements	20-50
Equipment	5-20
Road Vehicles	5-20

VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

F. Property Taxes

Property taxes are levied on November based on property assessment made between January 1 and May 31 and are an enforceable lien on January 1 for the real property and June 1 for the personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 10 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes forty percent (40%) of the proceeds of local taxes which are not pledged to secure bonded indebtedness or forty percent (40%) of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the difference must be deferred.

Amendment No. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Designations

1. Reserved fund balance – represents that portion of the fund balance which is not appropriate for expenditure or is legally segregated for a specific future use.
2. Undesignated fund balance – indicates that portion of the fund balance not reserved or designated.

I. Budget and Budgetary Accounting

The District is required by law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

J. Compensated Absences and Other Employee Benefits

The District has a sick leave plan covering substantially all teachers and other employees. The plan meets or exceeds the minimum requirements of State law.

Under State law, the District provides substantially all teachers and non-certified employees one day of paid sick leave for each month contracted or employed. Any accumulated unused leave is carried over to the next school year until a maximum of 90 days is accumulated. Any teacher employed by this District is given credit for any accumulated unused leave earned if previously employed in another school district within the State. The maximum credit allowable under this transfer provision is limited to 90 days.

A liability for unpaid accumulated sick leave is not reported in the governmental funds since the fund liability is not incurred under the regulatory basis of accounting, until the period in which the amounts are normally expected to be liquidated.

Van Buren School District No. 42 established an IRC Section 125 Cafeteria Plan for the benefit of its employees. The District is the plan administrator and the assets and liabilities of this plan are included in the financial statements of the District under the governmental fund type. Through a salary reduction plan employees are permitted to have the District pay the cost of the following benefits:

Physicals	Vision Care
Fees/Services	Dependent Care
Dental and Orthodontic Care	Hearing Expenses
Prescription Drugs	Medical Equipment
Therapy Treatments	Psychiatric Care
Assistance for the Handicapped	Miscellaneous Charges

K. Non-Monetary Transactions

Non-monetary transactions are reflected in these financial statements at their fair value. During the, fiscal year ended June 30, 2010, commodities were received by the District in the amount of \$150,151.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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 District's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentalities bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by 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 Federal Deposit Insurance Company (FDIC) insures bank accounts that earn less than .25% interest and all bank accounts up to \$250,000 and the total of certificates of deposits up to \$250,000. Citizens Bank has pledged securities of \$22,333,281 held by the Federal Reserve in the District's name to cover any excess cash balances. The District is fully collateralized.

**VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTD)

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 1,251,757	\$ 1,251,757
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	18,525,868	20,502,312
Uncollateralized:		
Cash on hand	2,200	-
	\$ 19,779,825	\$ 21,754,069

The above total deposits include certificates of deposits of \$17,773,143 reported as cash and classified as nonparticipating contracts.

NOTE 3: RECEIVABLES

The receivables of \$5,402,352 at June 30, 2010, are as follows:

Class of Receivable	General	Special Revenue	Other Aggregate	Total
Accounts receivable	\$ 17,656	\$ 2,190,866	\$ 3,176,100	\$ 5,384,622
Interest receivable	8,239	-	9,491	17,730
	\$ 25,895	\$ 2,190,866	\$ 3,185,591	\$ 5,402,352

NOTE 4: ACCOUNTS PAYABLE

The payables of \$2,774,562 at June 30, 2010, are as follows:

	General	Special Revenue	Other Aggregate	Total
Accounts payable	\$ 44,576	\$ 812,168	\$ 1,917,818	\$ 2,774,562

NOTE 5: INTERFUND TRANSFERS

Interfund transfers consisted of transfers from the Other Aggregate to the General Fund in the amount of \$3,676,607 and from the Other Aggregate to the Special Revenue Fund in the amount of \$898,367.

**VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 6: COMMITMENTS

The District was contractually obligated for the following construction projects at June 30, 2010:

Project Name	Estimated Completion Date	Contract Balance
King School Replacement Facility	Summer 2011	\$12,506,386
High School Roof Replacement	Summer 2010	652,884
Coleman Junior High Roof Replacement	Summer 2010	910,549
City Heights Roof Replacement	Summer 2010	177,234

The District was contractually obligated for the following operating lease (noncapital leases with initial noncancellable lease terms in excess of one year) at June 30, 2010:

Date of Origin	Future minimum rental payments	Payment Dates	Purpose
04/01/08	\$ 68,400	First of month	Copier lease
07/01/2010	\$ 19,506	1 st of July	Anti-virus Software

The District is invoiced monthly for \$2,600 for equipment rental, \$5,000 for service based on 10,000,000 copies/images annually and any requested staples with any overage billed annually at \$0.006. The District is billed quarterly for color images. For the year ended June 30, 2010, the District paid \$128,030 for copier leases.

The District is invoiced annually for \$9,753 for anti-virus software. For the year ended June 30, 2010, the District paid \$9,753 for anti-virus software.

Operating lease service requirements at June 30, 2010, are:

Year ending June 30,	
2011	\$ 78,153
2012	9,753
	<u>\$ 87,906</u>

NOTE 7: LONG-TERM DEBT

Long-term debt activities for the year ended June 30, 2010:

	Balance June 30, 2009	Issued	Retired	Balance June 30, 2010	Amounts due in one year
General obligation bonds	\$72,615,000	\$40,895,000	\$ 37,935,000	\$75,575,000	\$ 2,320,000
Notes payable	658,005	-	196,484	461,521	203,348
	<u>\$73,273,005</u>	<u>\$40,895,000</u>	<u>\$ 38,131,484</u>	<u>\$76,036,521</u>	<u>\$ 2,523,348</u>

VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

NOTE 7: LONG-TERM DEBT (CONTD)

A summary of each general obligation bond issue is as follows:

Date of Issue	Amount of Original Issue	Interest Rate Percent	Payment Dates	Range of Annual Maturities
04/01/05	\$ 3,375,000	2.60 / 3.65	04-01 / 10-01	255,000 / 370,000
09/01/05	4,000,000	3.0 / 4.25	04-01 / 10-01	75,000 / 245,000
06/01/06	5,000,000	3.5 / 4.5	04-01 / 10-01	145,000 / 310,000
06/01/07	5,320,000	4.0 / 4.5	04-01 / 10-01	75,000 / 325,000
07/01/08	5,500,000	3.0 / 4.35	04-01 / 10-01	40,000 / 345,000
04/01/09	8,360,000	2.25 / 4.35	04-01 / 10-01	160,000 / 555,000
07/01/09	5,915,000	1.25 / 4.70	04-01 / 10-01	220,000 / 375,000
01/01/10	37,895,000	2.25 / 4.625	04-01 / 10-01	100,000 / 2,430,000
03/10/10	3,000,000	1.95	04-01 / 10-01	0 / 3,000,000

General obligation bond debt service requirements at June 30, 2010, are:

Year Ending June 30	Principal	Interest	Total
2011	\$ 2,320,000	\$ 2,868,615	\$ 5,188,615
2012	2,515,000	2,808,843	5,323,843
2013	2,585,000	2,733,227	5,318,227
2014	2,665,000	2,653,804	5,318,804
2015	2,755,000	2,569,563	5,324,563
2016-2020	13,515,000	11,478,537	24,993,537
2021-2025	14,970,000	8,951,278	23,921,278
2026-2030	21,390,000	5,380,116	26,770,116
2031-2033	12,860,000	1,153,302	14,013,302
	<u>\$ 75,575,000</u>	<u>\$ 40,597,285</u>	<u>\$ 116,172,285</u>

A summary of each note payable issued and outstanding is as follows:

Date of Issue	Amount of Original Issue	Interest Rate Percent	Payment Dates	Range of Annual Maturities	Purpose
07/15/03	\$ 795,000	3.0	7/15	\$ 94,842 / 109,947	Service Center
12/20/06	513,880	4.78	12/20	83,979 / 153,165	Athletic Improvements

Notes payable debt service requirements at June 30, 2010, are:

Year Ending June 30	Principal	Interest	Total
2011	\$ 216,463	\$ 13,822	\$ 230,285
2012	245,058	4,139	249,197
	<u>\$ 461,521</u>	<u>\$ 17,961</u>	<u>\$ 479,482</u>

**VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

All long-term debt is secured by the full faith, credit and resources of the District and all its revenues from whatever source derived (which are legally pledgeable). Each issue contains an option allowing bonds to be called in inverse maturity order for redemption prior to maturity.

NOTE 8: RETIREMENT PLANS

A. Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired prior to July 1, 1989. ATRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 14%. The District's contributions to ATRS for the years ended June 30, 2010, 2009, and 2008 were \$3,892,188, \$3,791,429, and \$3,771,806, , respectively, equal to the required contributions for each year.

B. Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteaching Arkansas public school employees hired before July 1, 1989. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to PERS for the years ended June 30, 2010, 2009, and 2008 were \$3,644, \$5,344, and \$6,666, respectively, equal to the required contributions for each year.

NOTE 9: RELATED ORGANIZATIONS

The District's financial statements do not include assets, liabilities, and changes in net assets, relating to the Van Buren School District Education Foundation.

The Foundation operates as a nonprofit benevolent corporation for charitable educational purposes. The most recent financial information available for the Foundation is December 31, 2009. A summary of the Foundation's financial condition (unaudited) as of December 31, 2009, follows:

Assets	
Cash	\$ 179,648
Total assets	\$ 179,648

**VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Liabilities and Fund Balance

Net assets	\$ 179,648
Total liabilities and net assets	\$ 179,648

NOTE 9: RELATED ORGANIZATIONS (CONTD)

Major components of the change in net assets (unaudited) for the year ended December 31, 2009 consisted of:

Revenues

Donations	\$ 78,071
Interest Income	2,598
	80,669

Expenditures

Program Services	75,692
Net increase (decrease) in net assets	4,977
Beginning net assets	174,671
	\$ 179,648

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for board liability and students accidents. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from prior year in the major categories of risk.

The District participates in the Arkansas School Board Association – Workers’ Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers’ compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating and settling claims that have been filed against member districts. The District pays an annual premium for its buildings and contents coverage.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. The program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

The District participates in the Public School Vehicle Insurance Trust Fund Program administered by the Risk

VAN BUREN SCHOOL DISTRICT # 42
CRAWFORD COUNTY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

Management Division of the Arkansas Insurance Department. The general objective of the program is to allow member districts a means of insuring vehicles. The fund uses a reinsurance policy to reduce exposure to large losses on insured events. The District pays an annual premium for this coverage.

NOTE 11: COMPENSATION FOR CAPITAL LOSS OF CAPITAL ASSETS

The District received insurance proceeds of \$4,657 for damage to Butterfield Junior High School and \$4,688 for damages to buses.

NOTE 12: DEBT REFUNDING

On January 1, 2010, the District issued refunding bonds of \$37,895,000 with interest rates of 2.25% to 4.625% to advance refund \$36,825,000 of outstanding bonds dated January 1, 2004. The interest rates of the bonds advance refunded were 4.0% to 4.75%. Net bond proceeds of \$36,825,000 were remitted to an escrow agent to provide for all future debt payments on the advance refunded bonds. These bonds were called on January 11, 2010.

The remaining proceeds of \$20,689 (after payment of \$1,482,404 net bond issuance costs) were used for debt service payments.

NOTE 13: SUBSEQUENT EVENT

Management has evaluated subsequent events through October 8, 2010, the date the financial statements were available to be issued.

Supplemental Information

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Balance June 30, 2010
Nondepreciable Capital Assets:	
Land	\$ 4,806,588
Construction in progress	<u>3,600,075</u>
Total Nondepreciable Capital Assets	<u>8,406,663</u>
Depreciable Capital Assets:	
Buildings and improvements	87,342,565
Equipment	8,809,079
Road vehicles	<u>3,208,743</u>
Total Depreciable Capital Assets	<u>99,360,387</u>
Total Capital Assets	<u>107,767,050</u>
Less Accumulated Depreciation for:	
Buildings and improvements	18,142,885
Equipment	4,317,667
Road vehicles	<u>2,545,004</u>
Total Accumulated Depreciation	<u>25,005,556</u>
Capital Assets, net	<u><u>\$ 82,761,494</u></u>

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	CASH/ACCRUED OR (DEFERRED) DISBURSEMENTS JUNE 30, 2010
U.S. DEPARTMENT OF EDUCATION			
Safe & Drug Free Schools & Communities, Title IV, Part A, Subpart 1	84.186	17-05	\$ 22,413
Passed Through State Department of Workforce Education:			
Adult Education	84.191	17-05	75,000
Carl Perkins - Career and Technical Education - Basic Grants to State	84.048	17-05	103,806
Carl Perkins - Supplemental Grants for Improvement Activities	84.048	17-05	32,798
Total State Department of Workforce Education			<u>211,604</u>
Passed through State Department of Education			
ESEA Title I Regular - Comp Education	84.010	17-05	1,630,790
Improving Teacher Quality Grant, Title II, Part A	84.367	17-05	303,930
IDEA Title VI-B Pass through Funding	84.027	17-05	1,165,686
IDEA Early Childhood, Section 619	84.173	17-05	55,993
English Language Acquisition, Title III	84.365	17-05	23,472
21st Century Community Learning Center Title IV, Part B	84.287	17-05	80,979
ARRA - Title I, Part A	84.389	17-05	981,300
ARRA - IDEA	84.391	17-05	518,418
ARRA - IDEA Preschool	84.392	17-05	27,908
ARRA - IDEA CEIS	N/A	17-05	83,100
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	17-08	<u>1,380,790</u>
Total State Department of Education			<u>6,252,366</u>
Passed through Western Arkansas Education Service Cooperative:			
ESEA Title I - Migrant	84.011	17-05	<u>147,783</u>
Total U.S. Department of Education			<u>6,634,166</u>
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed through State Department of Education:			
National School Lunch Program - cash assistance	10.555	17-05	1,916,626
National School Breakfast Program - cash assistance	10.553	17-05	476,673
Child & Adult Care Food Program - cash assistance	10.558	17-05	6,103
Total State Department of Education			<u>2,399,402</u>
Passed through State Department of Human Services:			
Summer Food Service Program - cash assistance	10.559	17-05	8,270
Food Distribution Program - non-cash assistance (Note 2)	10.555	17-05	<u>150,151</u>
Total State Department of Human Services			<u>158,421</u>
Total Child Nutrition Cluster			<u>2,557,823</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Passed through State Department of Health			
Abstinence Education Program	93.235	17-05	292
Passed through State Department of Education:			
Learn & Serve	94.004	17-05	<u>6,030</u>
Total U.S. Department of Health & Human Services			<u>6,322</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Arkansas Department of Emergency Management			
FEMA Grant	97.047		<u>924,969</u>
U.S. DEPARTMENT OF DEFENSE			
ROTC - Reserve Officers' Training (Note 4)	12.NA		<u>77,183</u>
TOTAL FEDERAL AWARDS			<u>\$ 10,200,463</u>

Note 1: Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Van Buren School District No. 42 and is presented on the regulatory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

Note 2: This is the fair market value of commodities received during the fiscal year.

Note 3: The District expensed \$19,374 in Medicare funding and \$29,099 in ARMAC.

Note 4: The Federal CFDA number or other identifying number was not available.

See Independent Auditor's Report

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Program Grantor Program Title	<u>State</u> <u>Revenues</u>	<u>State</u> <u>Expenditures</u>
Arkansas Department of Education Arkansas Better Chance	<u>\$ 390,600</u>	<u>\$ 390,956</u>

Notes to the Schedule of Expenditures of State Awards

Note 1: Basis of Presentation - This Schedule of Expenditures of State Awards includes the state program activity of Van Buren School District #42 and is presented on the regulatory basis of accounting.

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
SUPPLEMENTAL DATA SHEET
FOR THE YEAR ENDED JUNE 30, 2010**

Name and address:	Van Buren School District No. 42 2221 Pointer Trail East Van Buren, Arkansas 72956
Employer Identification Number:	71-6021036
Telephone Number:	479-474-7942
Superintendent:	Dr. Merle Dickerson
Contact Person:	Dr. Merle Dickerson

Other Reports

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS –
STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

There were no findings in the prior audit.

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

Financial Statements

Type of report issued: GAAP basis of reporting – adverse
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

Material weakness identified? See page 27, item 2010-1.

Significant deficiencies identified that are not considered to be material weaknesses? No significant deficiencies

Noncompliance statement: No material noncompliance.

Federal Awards

Internal control over major programs:

Material weakness identified? No material weakness identified

Significant deficiencies identified that are not considered to be material weaknesses? See pages 28 & 29, items 2010-2 and 2010-3

Type of report issued on major programs: Unqualified Opinion

Any audit finding disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes

Major programs identified:

CFDA Number(s)	Name of Federal Program or Cluster
94.047	FEMA Grant
84.010	ESEA Title I Regular - Comp Education
84.389	ARRA - Title I, Part A
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.391	ARRA - IDEA

Dollar threshold to distinguish between Type A and Type B programs: \$307,468

Statement of Risk of the Auditee: The audit was performed on the District as a low risk auditee in accordance with GAGAS. The risk based approach was used in determining which major federal programs would be tested.

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
FINDINGS IN ACCORDANCE WITH GAGAS
FOR THE YEAR ENDED JUNE 30, 2010**

2010 – 1 Segregation of Duties

Criteria or specific requirement: Internal control is a process consisting of five interrelated components – *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.

Condition: The deficiency in the internal control component of control activities adversely affected the District’s ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was more than a remote likelihood that a misstatement of the District’s financial statements that would be more than inconsequential would not be prevented or detected. The District has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting.

Context: An understanding of the five components of internal control sufficient the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District’s ability to initiate, authorize, record, process, and report transactions consistent with management’s assertions embodied in the financial statements, as well as the ability to safeguard the District’s assets, were adversely affected by the identified weakness in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District’s ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiency in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management’s assertions embodied in the financial statements and that will safeguard District’s assets.

Views of responsible officials and planned corrective actions: The District will establish segregation of duties to the extent possible.

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
FEDERAL AWARDS PROGRAMS
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Significant Deficiencies

U.S. Department of Education
Passed Through State Department of Education
ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act –
CFDA Number 84.394
Pass Through Number 1705000
Audit Period – Year Ended June 30, 2010

2010-2 Davis-Bacon Act

Criteria or specific requirement: The Davis-Bacon Act requires all contractors and subcontractors performing on construction contracts in excess of \$2,000, financed by Federal funds, to pay their laborers and mechanics not less than the prevailing wage rates as determined by the Department of Labor. Non-federal entities are to include in the applicable construction contracts a requirement that the contractor or subcontractor comply with the provisions of the Davis-Bacon Act and the Department of Labor regulations. Such requirements included the submission of weekly certified payrolls, for each week in which the contract work is performed, to the non-federal entities.

Condition: The District did not notify the contractor or subcontractor, awarded a removal and replacement of roofing and HVAC contract of \$4,259,680 for materials and labor, of the requirement to comply with the Davis-Bacon Act and did not obtain copies of certified payroll.

Context: Examination of payments made to a contractor and supporting documentation for the roofing and HVAC project.

Effect: The District did not comply with the notification requirements regarding compliance with the Davis-Bacon Act and was unable to provide copies of weekly certified payrolls for workers paid on the project.

Cause: The District was unaware the Davis-Bacon Act applied for this project.

Recommendation: The District should ensure that all applicable construction contracts contain the required notification regarding compliance with the Davis-Bacon Act. Copies of weekly certified payrolls should be obtained for the applicable projects. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: The Van Buren School District will require that contractors submit weekly certified records on federal projects. As of the audit report, dated October 8, 2010, the Van Buren School District has corrected the contract for roofing and HVAC projects.

**VAN BUREN SCHOOL DISTRICT #42
CRAWFORD COUNTY, ARKANSAS
FEDERAL AWARDS PROGRAMS
FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Significant Deficiencies (Continued)

2010-3. Procurement and Suspension and Debarment

Criteria or specific requirement: The American Recovery and Reinvestment Act (ARRA) of 2009 prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. The construction contracts for all applicable projects, financed by ARRA funds, are to contain a Buy-American clause.

Condition: A contract of \$4,259,680, previously identified in finding 2010-2, for materials and labor for the removal and replacement of roofing and HVAC, did not contain the Buy-American clause.

Context: Examination of payments made to a contractor and supporting documentation for the removal and replacement of roofing and HVAC projects.

Effect: The District's construction contract did not contain the required Buy-American clause.

Cause: The District was unaware the Buy-American provisions applied to repair projects.

Recommendation: The District should ensure that all applicable construction contracts contain the Buy-American clause. The District should also contact the Arkansas Department of Education for further directives regarding this matter.

Views of responsible officials and planned corrective actions: The District will require that contracts on federal projects include "Buy-American" clauses. The District was completed with this project as of the audit report date.



Hubbs, Lyon and Company, CPA's, p.a.

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Independent Auditors' Report on Compliance With Arkansas State Requirements

The School Board Van Buren School District #42 Van Buren, Arkansas

We have examined management's assertions, included in its representation letter dated **October 8, 2010**, that **Van Buren School District #42** complied with the requirements of Arkansas Code Annotated §6-1-101 during the year ended June 30, 2010. As discussed in that representation letter, management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

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

In our opinion, management's assertions that **Van Buren School District #42** complied with the aforementioned requirements for the year ended June 30, 2010, are fairly stated, in all material respects.

This report is intended solely for the information and use of the governing body, management of **Van Buren School District #42** and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hubbs, Lyon & Company, p.a.
Certified Public Accountants

Van Buren, Arkansas
October 8, 2010

Member of:

*American Institute of
Certified Public
Accountants

*Arkansas Society of
Certified Public
Accountants

*Oklahoma Society of
Certified Public
Accountants

*Governmental Audit
Quality Center

VAN BUREN SCHOOL DISTRICT #42
SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION TO BE
ADDRESSED IN INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
YEAR ENDED JUNE 30, 2010

<u>Description</u>	<u>Statutes</u>
Bidding & Purchasing Commodities	6-21-301 – 6-21-305
Ethical Guidelines and Prohibitions	6-31-628; 6-24-101 et seq
Collateralization & Investment of Funds	6-20-222; 19-1-105
Deposit of Funds	19-8-104; 19-8-106
District Finances	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
Management of Schools	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-13-1406; 6-24-101; 6-24-104 – 6-24-105
• District Treasurer	6-13-701
○ Warrants	6-17-918; 6-17-919; 6-20-403
Management Letter for Audit	14-75-101 – 14-75-104
Nonrecurring Salary Payments	6-20-412
Revolving Loan Fund	6-19-114; 6-20-801 et seq.
Salary Laws – Classified	6-17-2201 et seq.; 6-17-2301 et seq.
School Elections	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118; 6-13-1412; 6-13-1413
Teachers and Employees	
• Personnel Policies	6-17-201 et seq.
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
Teacher Salaries, the Minimum Foundation Program Aid Act	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
Trust Funds (Education Excellence)	6-5-307
Use of Contractors, Improvement Contracts	22-9-201 – 22-9-205
Use of DM&O Millage	26-80-110