



Board of Education
Thursday, February 23, 2006, 5:00 PM
Adams Leadership Center, Winborn Conference Room

<i>Agenda Item</i>	<i>Page #</i>
I. Call to Order, Steve Percival, President	I-1
II. Pledge of Allegiance, McNair Middle School	II-1
III. Roll Call of Members	III-1
IV. Recognition of People, Events, & Programs	IV-1
V. Consent Agenda	
A. Reading of the Minutes	V-A1
B. Certified Staff Changes	V-B1
C. Support Staff Changes	V-C1
D. Student Transfers	V-D1
E. Financial Report	V-E1
<i>*Any item shall be removed from the consent items section at the request of one board member.</i>	
VI. Action Items	
A. Audit Report – <i>Lisa Morstad</i>	VI-A1
B. Budget Revisions – <i>Lisa Morstad</i>	VI-B1
C. Ethics Law Disclosures – <i>Lisa Morstad</i>	VI-C1
D. Arkansas Teacher Retirement Resolution – <i>Lisa Morstad</i>	VI-D1
E. District Technology Plan for Arkansas Dept. of Education – <i>Susan Cromwell</i>	VI-E1
F. Elementary Textbook Adoption – <i>Judy Rana</i>	VI-F1
VII. Information Items	
A. Jefferson Task Force Update – <i>Mike Gray & Tim Kring</i>	VII-A1
VIII. Executive Session	VIII-1
IX. Citizen Participation	IX-1
X. Adjournment	X-1



February 23, 2006

Roll Call

Steve Percival, President
Howard Hamilton, Vice President
Christine Bell, Secretary
Susan Heil, Member
Tim Hudson, Member
Tim Kring, Member
Laura Underwood, Member



February 23, 2006

Consent Agenda

Reading of the Minutes

Certified Staff Changes

Support Staff Changes

Student Transfers

E. Financial Report



Fayetteville Board of Education

Minutes of the January 26, 2006 Regular Meeting

The meeting was convened at 5:00 PM in the Adams Leadership Center with President Steve Percival presiding. The Pledge of Allegiance was led by students from Root Elementary School.

Roll Call

The roll was called and board members Tim Kring, Laura Underwood, Howard Hamilton, Steve Percival, Susan Heil, Christine Bell and Tim Hudson were present.

Recognition of People, Events and Programs

Bedford Camera & Video received a Partner Award for their help with the middle school gifted & talented program's photography exhibit. Bedford's provided disposable cameras and developed 400 rolls of film at no cost. They also developed 200 5x7 prints for the GT photography exhibition.

The Fayetteville High School Student Council received a Recognition of Outstanding Achievement for their 2005 Homeless Vigil which raised more than \$20,000.

Connotations, the Fayetteville High School literary magazine, received a Recognition of Outstanding Achievement for being named to the National Scholastic Press Association's All-American Hall of Fame.

Alan Wilbourn, director of school and community relations, announced that Monday, February 20th is an inservice day for teachers. Spring break is March 20-24. The district volunteer banquet will be Tuesday, April 4 at 6:30PM in the FHS cafeteria.

Consent Agenda

Laura Underwood made a motion to accept the consent agenda. Susan Heil seconded the motion, which passed by a 7-0 vote.

Enrollment Distribution Project

The Board voted 7-0 to accept the junior high attendance zones as presented by the Enrollment Distribution Projects committee. Mike Gray, associate superintendent, noted that the proposed maps better equalize the socioeconomic make-up of the enrollment in the schools. Mr. Gray added that current 8th graders will be allowed to attend the same junior high that they currently attend. Howard Hamilton made the motion, which was seconded by Laura Underwood.

The Board voted 7-0 to accept the proposed middle school attendance zone map that includes a designated area which will transition from the Holt Middle School zone into the Ruppel Road middle school zone over a period of two years. Mr. Gray reported that the growth pattern in the Holt and Ruppel Road attendance zones will be monitored and those zones will be tweaked as needed. Board member Tim Kring added that attendance lines can be changed by administration without coming to the Board for approval. Mr. Gray noted that current sixth grade students will be allowed to attend the same middle school that they currently attend. Chris Bell made the motion, which was seconded by Howard Hamilton.



**January 26, 2006 Board Meeting
Page 2**

The Board voted 4-3 to approve the nine-zone map that was proposed by the Enrollment Distribution Project stakeholders committee and allow current Jefferson Elementary students to attend either the school where they will be zoned under this map or the Ruppel Road school. The Board also directed the administration to work with parents in the Happy Hollow regarding issues in that attendance zone. Tim Hudson made the motion, which was seconded by Tim Kring.

Insurance Bids

The Board voted 7-0 to accept the low bid of \$66,499.00 from Great American Ins. Co. for property insurance and the bid of \$8,336.00 from Cincinnati Ins. Co. for boiler and machine for a total bid of \$74,835.00. Mike Gray added that the insurance coverage period will run from July 1 through June 30 instead of the calendar year. Prior to June 30, 2006, building values will be evaluated and increased, if necessary, to provide adequate replacement coverage for all properties. Howard Hamilton made the motion, which was seconded by Laura Underwood.

The Board voted 7-0 to accept the low bid of \$40,713.60 from Continental Western Ins. Co. for vehicle insurance. Tim Hudson made the motion, which was seconded by Laura Underwood.

Press Box Construction

The Board voted 7-0 to table action regarding press box construction. Howard Hamilton made the motion, which was seconded by Laura Underwood.

Network Contract

The Board voted 7-0 to approve the school wide area network contract with Cox Communication contingent on school district attorney Rudy Moore's approval. Susan Cromwell, district technology director, added that Cox has provided excellent customer service and that the new contract is at a lower price. Susan Heil made the motion, which was seconded by Christine Bell.

State Technology Plan

Susan Cromwell reported that the district is required by the State of Arkansas to submit a three year technology plan. She added that the district technology committee is working on the plan and will bring it back for board approval in February.

Vandergriff Track

Bert Stark, principal at Vandergriff Elementary School, reported on the proposed Bob Kraynik Track & Field to be built between Vandergriff and McNair schools. The facility will be named in memory of Bob Kraynik, a former physical education teacher at Vandergriff who recently passed away. A committee has been formed to start work on plans and fundraising for the track.



**January 26, 2006 Board Meeting
Page 3**

2006-07 High School Schedule Changes

Dr. Randy Willison, Fayetteville High School principal, reported on schedule changes for the 2006-07 school year. The schedule will change from six one-hour periods per day to seven fifty-minute periods. The state of Arkansas will require 22 credits for graduation beginning in 2006-07. Fayetteville High School requires 24 credits to graduate. The seven-period schedule will provide students with 28 credit earning opportunities. In addition, the new schedule will shorten the school day by one hour with classes beginning at 8:20AM and ending at 3:30PM, will allow for bus transportation for all students and will provide smaller class sizes.

Executive Session

The Board adjourned to executive session at 8:10PM. The Board returned to open session at 8:45PM. Tim Kring made the motion to extend the superintendent's contract through the 2008-09 school year. Laura Underwood seconded the motion, which passed by a 7-0 vote.

Adjournment

The meeting was adjourned at 9:10PM.

Student Expulsion Hearing

The Board convened in closed session at 9:11PM for a student expulsion matter. The Board reconvened in open session at 9:24PM. Ginny Wiseman, assistant superintendent, recommended that Student A be expelled for the remainder of the semester. Tim Hudson made a motion to accept the recommendation and expel Student A for the remainder of the semester. Howard Hamilton seconded the motion, which passed by a 7-0 vote. The meeting was adjourned at 9:26PM.

Stephen M. Percival, President

Christine Bell, Secretary



February 23, 2006

Consent Agenda

B. Certified Personnel

TO: Board of Education

FROM: Bobby New, Superintendent

I recommend approval of the following personnel actions:

Provisional Employment¹

<i>Name</i>	<i>Position & Assignment</i>	<i>FTE</i>	<i>Replacement/ New Position</i>	<i>Period</i>
Dan Copeland ^{5,8}	Math Coach, Leverett	.50	Replacement	05-06

Resignations

<i>Name</i>	<i>Position & Assignment</i>	<i>Effective Date</i>
Jennifer Lawson	Title I Math Coach, Leverett	1/27/06

¹Pending completion of a criminal background check and receipt of eligibility information from the Department of Education

²Based on student count

³Year 1 of 1 year new hire probationary Period

⁴Year 2 of 3 year new hire probationary period

⁵Year 1 of 3 year new hire probationary period

⁶Year 3 of 3 year new hire probationary period

⁷Per policy 4150

⁸For the remainder of current year only



February 23, 2006

Consent Agenda

C. Support Staff Changes

TO: Board of Education

FROM: Bobby C. New

I recommend approval of the following changes in support staff:

Provisional Employment¹

<i>Name</i>	<i>Position & Assignment</i>	<i>Pay Grade/ Rate</i>	<i>Replacement/ New Position</i>	<i>Period</i>
Kristin Ivey	Pre-K Aide, Jefferson	15	Replacement	05-06
Michael Macaulay	Client Repair Tech, Technology	26	Replacement	05-06
Gena Thompson	Instructional Aide, Butterfield	15	Replacement	05-06
Dan Copeland ⁴	Guided Lit/Lunchroom Aide, Leverett	15	Replacement	05-06

Resignations

<i>Name</i>	<i>Position & Assignment</i>	<i>Effective Date</i>
<i>Jennifer Lawson</i>	<i>Guided Lit/Lunchroom Aide, Leverett</i>	<i>1/27/06</i>

¹Pending completion of a criminal background check and receipt of eligibility information from the Department of Education

²Based on student count

³Grant funded

⁴For the remainder of current year only



February 23, 2006

Consent Agenda

D. Student Transfers

TO: Board of Education

FROM: Bobby C. New

I recommend approval of the following student transfer requests:

Incoming:

Jennifer Ellison requests that her children, Sheldon Ellison, age 13, and Christian Fletcher, age 10, and Kournayie Ellison, age 6, be transferred from the Prairie Grove School District to the Fayetteville School District.

Susan McCarthy requests that her child, Casey McCarthy, age 13, be transferred from the West Fork School District to the Fayetteville School District.

Cauleen Johnson requests that her child, Cody Stidham, age 8, be transferred from the Greenland School District to the Fayetteville School District.

Rhonda Bertrand requests that her child, Autumn Bertrand, age 15, be transferred from the Prairie Grove School District to the Fayetteville School District.

Dona Brady requests that her child, Kristopher Konopinski, age 15, be transferred from the Farmington School District to the Fayetteville School District.

Jeff Courtway requests that his child, Erin Courtway, age 16, be transferred from the Prairie Grove School District to the Fayetteville School District.

Thomas Petty requests that his children, Cody Petty, age 14 and Jessie Petty, age 11, be transferred from the Farmington School District to the Farmington School District.

Outgoing:

Melissa Bulla requests that her child, Trent Bulla, age 10, be transferred from the Fayetteville School District to the Elkins School District.

Pam Earhart requests that her child Joseph Earhart, age 17, be transferred from the Fayetteville School District to the Springdale School District.

Robin Barnette requests that her children, Jonothan Barnette, age 8 and Keri Barnette, age 6, be transferred from the Fayetteville School District to the Greenland School District.

**Executive Summary Financial Report
Fayetteville Public Schools
FY2005-06**

2/17/2006

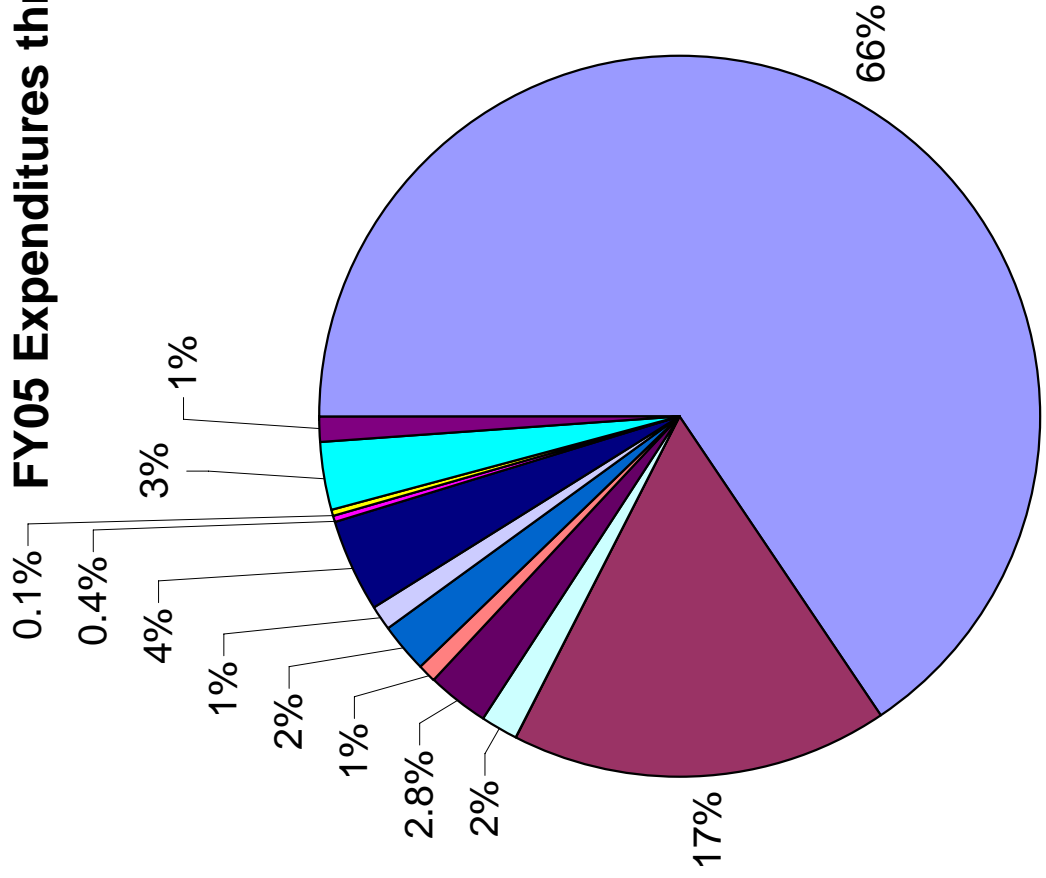
	Actuals FY05 Budget	FY06 Budget	Year To Date 1/31/2006 7 months of 12 = 59%	Note	% of Budget	Year To Date 1/31/2005 7 months of 12= 59%
Revenues:						
Uncommitted Cfwd	\$ 2,503,147.80	\$ 500,000.00	\$ 2,220,199.28			\$ 2,503,147.80
Restricted Carryforwards	\$ 1,378,734.19	\$ 1,500,000.00	\$ 2,898,475.49			\$ 1,378,734.19
State Funds	\$ 28,086,467.50	\$ 25,552,019.75	\$ 14,510,932.32		57%	\$ 13,980,211.00
Local Funds	\$ 34,452,019.91	\$ 34,969,741.76	\$ 25,698,668.87	a	73%	\$ 22,908,306.17
Interest on checking account	\$ 228,610.67	\$ 225,000.00	\$ 313,985.46	b	140%	\$ 147,231.66
Fed Funds/Grants/Restricted	\$ 6,641,749.83	\$ 7,000,000.00	\$ 2,987,366.35	a	43%	\$ 3,210,117.69
Vocational Education	\$ 1,354,028.40	\$ 866,000.00	\$ 329,604.00	a	38%	\$ 437,107.50
Pepsi Contract	\$ 207,418.00	\$ 207,418.00	\$ 207,418.00	a	100%	\$ 207,418.00
Athletic Gate Receipts	\$ 111,947.00	\$ 100,000.00	\$ 116,988.00	c	117%	\$ 96,684.00
E-rate	\$ 50,026.96	\$ 50,000.00	\$ -	a	0%	\$ 21,539.77
Miscellaneous	\$ 274,497.59	\$ 125,000.00	\$ 44,489.59	a	36%	\$ 180,119.26
Food Service sales	\$ 1,481,948.19	\$ 1,410,000.00	\$ 755,892.45		54%	\$ 907,099.87
Reserve	\$ 4,287,214.24	\$ 4,287,214.24	\$ 4,287,214.24		100%	\$ 4,287,214.24
Total Revenues & Reserve:	\$ 81,057,810.28	\$ 76,792,393.75	\$ 54,371,234.05		71%	\$ 50,264,931.15
Expenditures:						
Salaries	\$ 46,372,382.57	\$ 47,116,164.96	\$ 20,390,381.31	d	43%	\$ 22,270,317.54
Fringe Benefits	\$ 10,620,358.59	\$ 11,779,041.24	\$ 5,297,988.13	d	45%	\$ 5,027,877.91
Debt Service Payments	\$ 4,540,223.79	\$ 4,502,154.17	\$ 1,364,992.47	e	30%	\$ 1,262,748.70
Maintenance & Operations:						
Maintenance	\$ 1,251,649.12	\$ 1,048,743.10	\$ 557,473.24		53%	\$ 739,046.26
Utilities	\$ 1,247,159.39	\$ 1,192,693.65	\$ 863,732.67		72%	\$ 696,593.95
Transportation	\$ 667,058.47	\$ 510,213.30	\$ 258,779.00	a	51%	\$ 421,255.77
Food Service	\$ 1,080,613.86	\$ 843,557.10	\$ 610,792.08	a	72%	\$ 678,927.30
Technology	\$ 444,897.53	\$ 441,864.00	\$ 421,722.17	f	95%	\$ 460,342.03
Curriculum & Instruction	\$ 1,749,326.16	\$ 1,494,251.66	\$ 1,258,524.09	g	84%	\$ 1,536,030.48
School Improv/Prog. Devlp.	\$ 221,468.91	\$ 170,721.69	\$ 111,862.15	a	66%	\$ 159,677.04
Athletics/Physical Education	\$ 259,702.69	\$ 207,804.91	\$ 36,681.12	a	18%	\$ 92,622.94
Grant Expenditures (not personnel)	\$ 1,561,798.43	\$ 1,820,000.00	\$ 970,042.35	a	53%	\$ 1,089,548.00
Miscellaneous	\$ 418,547.57	\$ 393,519.72	\$ 355,390.37	a	90%	\$ 521,101.49
Tuition	\$ -	\$ 984,450.00	\$ -	a	0%	\$ 4,287,214.24
Reserve	\$ 4,287,214.24	\$ 4,287,214.24	\$ 4,287,214.24		100%	\$ -
FY 2004 Restricted Carryforwar	\$ 1,378,734.19					\$ 1,378,734.19
FY 2005 Restricted Carryforwar	\$ 2,220,199.28		\$ 2,898,475.49			\$ -
FY 2005 Unrestricted Carryforw	\$ 2,898,475.49					\$ -
	\$ 81,219,810.28	\$ 76,792,393.75	\$ 39,684,050.88		52%	\$ 40,622,037.84

Executive Summary
Fayetteville Public Schools
FY2005-2006
Notes to Financial Report

- a. Funding/Expenditures not incurred equally throughout the year.
- b. Higher due to better interest rates earned on investments.
- c. Higher due to preseason ticket sales and hosting the Springdale football game.
- d. Lower because first teacher payroll did not occur until September
- e. Debt service payments due on December 1st and June 1st.
- f. Technology expenditures include major computer purchases and payment of annual contractual agreements for internet and other district-wide services.
- g. Includes purchases of textbooks and supplies purchased before beginning of school year.

FY05 Expenditures thru 1/31/06

- Salaries
- Fringe Benefits
- Debt Service Payments
- Maintenance
- Utilities
- Transportation
- Food Service
- Technology
- Curriculum & Instruction
- School Improv/Prog. Devlp.
- Athletics/Physical Education
- Grant Expenditures (not personnel)
- Miscellaneous





February 23, 2006

Audit Report

TO: Board of Education

FROM: Lisa Morstad

I will present the final audit report for the 2004-2005 school year.

FAYETTEVILLE SCHOOL DISTRICT #1

June 30, 2005

**Financial Statements
And
Supplemental Schedules**

With

Independent Auditors' Report

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Independent Auditors' Report

The School Board
Fayetteville School District #1
Fayetteville, Arkansas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fayetteville School District #1 as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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 and OMB Circular-133, *Audits of States, Local Governments and Non-Profit Organizations*. 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.

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 District as of June 30, 2005, 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 9, 2005, 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 grants. 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.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is 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 basic financial statements of the District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Maure Stephens Frost

Certified Public Accountants

Little Rock, Arkansas
November 9, 2005

Management's Discussion and Analysis**June 30, 2005****Introduction**

The discussion and analysis of the Fayetteville Public Schools (the "FPS") financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on FPS' financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of the FPS' financial performance.

Overall Analysis

The FPS is the 7th largest school district in the State of Arkansas, serving more than 8,300 students and realizing student growth every year. The FPS' overall financial position is strong, stable and consistent. The district has seen a continuous growth in local property tax receipts with a corresponding decrease in state appropriated funding (as is the intention of the equalization process). Overall revenues have increased each year providing necessary increases to cover cost of living adjustments and raises for district employees and inflationary increases realized in the operating budget. Northwest Arkansas was deemed the fifth fastest growing Metropolitan Statistical Area in the nation and the FPS has experienced and benefited from the growth in our area.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The government-wide assets of the FPS exceeded its liabilities on June 30, 2005 by \$36,883,786. Of this amount, \$19,106,079 (unrestricted net assets) may be used to meet the district's ongoing obligations.
- The FPS' total net assets showed a net increase from FY04 to FY05 of \$5,739,474. This increase is primarily due to increased investments in certificates of deposit net of new debt issues in FY05.
- At June 30, 2005, the FPS had governmental fund balances of \$34,622,778. This total is comprised of a \$5,966,441 fund balance in the General Fund, \$14,334,080 balance in the Capital Projects Fund and \$14,322,257 in the Other Governmental Funds. This is a \$8,210,752 increase in comparison with prior year. This increase is primarily due to funds reserved for capital projects.
- Net increase in the district's overall long-term debt was \$7,693,771. Proceeds are primarily designated for construction of a new K-7 school.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the FPS' basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Management's Discussion and Analysis (cont.)

June 30, 2005

Overview of Government-wide Financial Statements

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

The Statement of Net Assets and the Statement of Activities provide information about the activities of the school district as a whole, presenting both an aggregate and long-term view of the finances. These statements include 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 of the FPS' assets and liabilities with the difference between the two reported as net assets. Increases 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 and unpaid Arkansas Teacher Retirement System payments).

All of the FPS' services are reported in the government-wide financial services, including instruction, pupil support services, instructional support services, administrative support services, facility support services, and food services. Property taxes, state aid, and other federal and state restricted sources finance most of these activities. Additionally, all capital and debt financing activities are reported here.

The government-wide financial statements can be found on pages 11 - 12 of this report.

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. FPS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance and finance-related legal requirements. All FPS funds are reported in the governmental funds.

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 fund 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.

Management's Discussion and Analysis (cont.)**June 30, 2005**

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

The FPS' governmental fund financial statements provide detailed information about its two most significant funds: the General and Capital Funds. All other funds are combined into the column titled Other Governmental Funds. These three columns add up to the Total Governmental Funds column located on the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds. See pages 13 and 15 of this report.

The school district adopts an annual budget for all of its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate conformity with this budget. The statement is included as required supplementary information on page 30 of this report.

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 FPS' own programs.

The basic fiduciary fund financial statements can be found on pages 17 - 18 of this report.

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. The notes to the financial statements can be found on pages 19 - 29 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the FPS, assets exceeded liabilities by \$36,883,786 at the close of the most recent fiscal year.

The largest portion of the FPS' net assets (\$19,106,079 or 52%) is unrestricted and may be used by the district to meet its ongoing obligations to students and creditors. Another significant portion (46%) 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 school district used these capital assets to provide education to students; consequently these assets are not available for future spending. Although the school district's 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.

Management's Discussion and Analysis (cont.)

June 30, 2005

Governmental Activities Net Assets

	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets	\$ 67,579,917	\$ 54,474,860
Capital assets, net	<u>57,830,334</u>	<u>52,080,728</u>
Total assets	<u>\$ 125,410,251</u>	<u>\$ 106,555,588</u>
<u>Liabilities</u>		
Current liabilities	\$ 34,455,684	\$ 28,272,434
Long-term liabilities	<u>54,070,781</u>	<u>46,517,499</u>
Total liabilities	<u>\$ 88,526,465</u>	<u>\$ 74,789,933</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$ 16,838,949	\$ 16,073,137
Restricted for other	938,758	1,072,044
Unrestricted	<u>19,106,079</u>	<u>13,999,131</u>
Total net assets	<u>\$ 36,883,786</u>	<u>\$ 31,144,312</u>

The remaining portion of the FPS' net assets (2%) represents resources that are subject to external restrictions on how they may be used.

There was an increase in both total assets and total liabilities. The increases are primarily due to debt issued during the current fiscal year. The proceeds of which are restricted to constructing, updating and equipping facilities.

Management's Discussion and Analysis (cont.)

June 30, 2005

Governmental Fund Changes in Net Assets

The FPS' net assets increased by \$5,739,474 (19%) as follows:

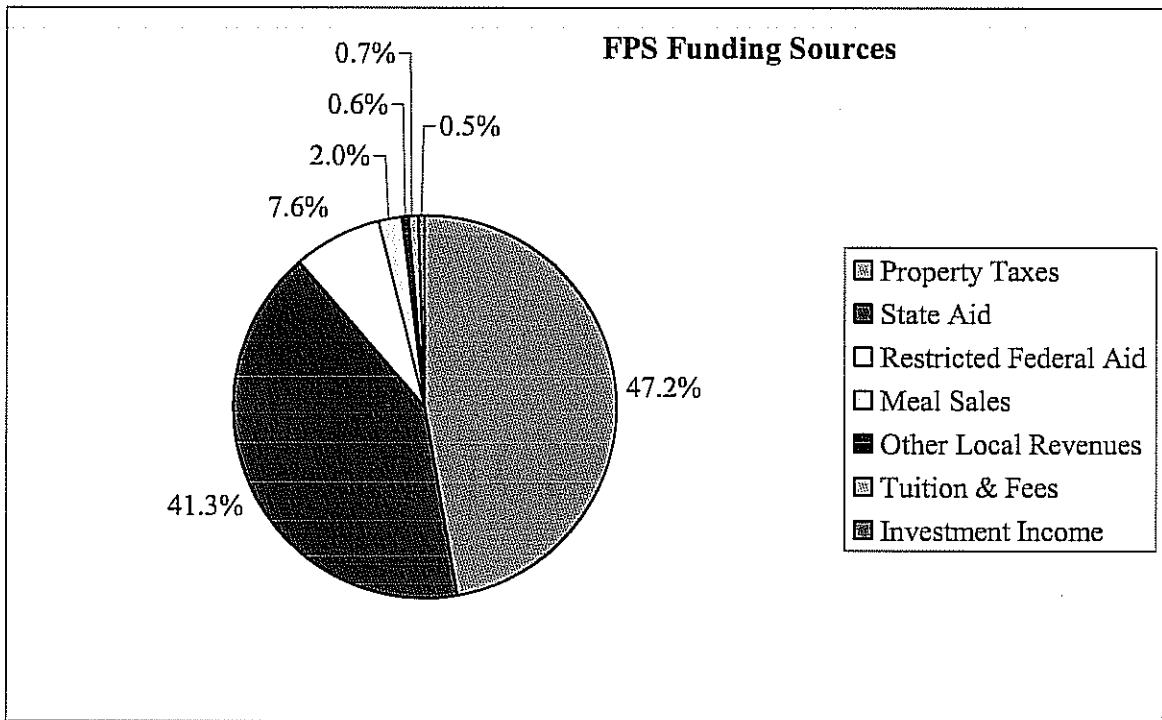
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 2,185,095	\$ 2,183,637
Operating grants and contributions	<u>8,716,165</u>	<u>8,149,161</u>
Total program revenues	<u>10,901,260</u>	<u>10,332,798</u>
General revenues		
Property taxes	36,500,319	29,471,608
Investment income	423,200	473,626
Miscellaneous	452,858	580,044
Unrestricted state aid	28,465,594	21,389,174
Loss on disposal of capital assets	<u>-</u>	<u>(63,961)</u>
Total general revenues	<u>65,841,971</u>	<u>51,850,491</u>
Total revenues and transfers	<u>76,743,231</u>	<u>62,183,289</u>
Expenses		
Instruction	40,085,817	35,105,402
Support services	25,395,892	22,517,093
Operation of non-instructional services	2,827,700	2,632,945
Facilities acquisition and construction services	-	952,332
Other	361,164	20,820
Interest on long-term debt	2,257,645	1,901,884
Agent's fees on long-term debt	<u>75,539</u>	<u>19,328</u>
Total expenses	<u>71,003,757</u>	<u>63,149,804</u>
Change in net assets	5,739,474	(966,515)
Net assets, beginning of year	<u>31,144,312</u>	<u>32,110,827</u>
Net assets, end of year	<u>\$ 36,883,786</u>	<u>\$ 31,144,312</u>

Management's Discussion and Analysis (cont.)

June 30, 2005

- Property taxes increased by \$7,028,711 (24%) and Unrestricted State Aid increased by \$7,076,420 (33%), respectively, during the year due to increased assessed valuations and revisions in the state funding formula.
- Instruction and Support Services expenditures increased by \$4,980,415 (15%) and \$2,878,799 (13%), respectively, from the prior year. The increase is primarily due to raises and bonuses given to certified and non-certified staff in FY05.

The following pie chart presents a summary of the significant funding sources for the district for the period ended June 30, 2005:



Financial Analysis of the Government's Funds

As noted earlier, the FPS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the FPS' governmental funds is to provide information on near-term inflows, outflows and balances of expendable resources. Such information is useful in assessing the school district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available at the end of a fiscal year.

Management's Discussion and Analysis (cont.)

June 30, 2005

As of the end of the current fiscal year, the FPS' governmental funds reported combined ending fund balances of \$34,622,778, an increase of \$8,210,752 in comparison with the prior year. Nearly 18% of this amount (\$5,966,441) constitutes unreserved general fund balance which is available for spending at the school district's discretion. The remainder of the fund balance is restricted for capital projects, debt service or other purposes.

The general fund is the chief operating fund of the FPS. At the end of the current year, unreserved fund balance of the general fund was \$5,966,441 which represents 11% of total fund expenditures.

During the current fiscal year, the fund balance of the FPS' general fund decreased by \$1,746,345. The key factor in the decline is a 5% increase in total fund expenditures primarily due to certified and non-certified personnel bonuses paid for during the current fiscal year from existing fund balance.

General Fund Budgetary Highlights

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States for the general fund. The budget is revised at mid-year to adjust for factors and occurrences which are unknown during the initial budgeting process.

During the year, there was an overall favorable variance of \$5,151,710 of the change in fund balance between the final budgeted amounts to the actual results. The primary reason for the favorable variance was due to \$3.4 million of deferred revenue which was recognized in FY2005. Other factors leading to the favorable variance were special education catastrophic funding of \$906,846, additional growth funding of \$421,852 and other miscellaneous categorical funding that was higher than anticipated.

Capital Assets and Debt Administration

Capital Assets. At June 30, 2005, the FPS had \$57,830,334 invested in a broad range of capital assets, including land, construction in progress, buildings, machinery and equipment, and vehicles. This represents a \$5,128,263 net increase over prior year (considering deletions, additions, and depreciation).

Major construction projects during the year included beginning construction of a new kindergarten through seventh grade school and miscellaneous renovation projects throughout the district. These projects cost the district \$5,050,590 in FY05. Equipment and vehicle purchases of \$3,126,113 are also included in the fiscal year calculations.

Long-Term Debt. At June 30, 2005, the FPS had \$56,105,781 in outstanding total debt. New bonds of \$10,208,921 (net of refundings) were issued during FY05. Principal payments of \$2,015,000 were also included in the total calculation.

The FPS has a statutory debt limitation of \$234,456,341. Current debt of \$56,105,781 equals 24% of the allowed debt limitation. The FPS insured bond rating is Aaa and enhanced bond rating is A1.

Management's Discussion and Analysis (cont.)

June 30, 2005

Economic Factors and Currently Known Facts

In December, 2005, the Arkansas Supreme Court concurred with a special masters ruling that the State Legislature had failed to comply with a court order which declared the State funding formula for education was inadequate. Final implications of the ruling as it relates to the FPS are not currently known as of the date of this report.

Requests for Information

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the FPS' finances and to show the FPS' accountability for the money it receives. Additional details can be requested by mail at the following address:

The Fayetteville Public Schools
Attn: Business Office
1000 West Stone Street
Post Office Box 849
Fayetteville, Arkansas 72702

Or visit our website at: www.fayar.net for a complete copy of this report and other district information.

Statement of Net Assets

June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets	
Cash and cash equivalents	\$ 7,871,242
Receivables	
Taxes, net of allowance for uncollectibles of \$575,721	27,568,637
Accrued interest receivable	283,628
Note receivable	150,000
Prepaid expenses	106,159
Inventories, at cost	17,424
Total current assets	<u>35,997,090</u>
Restricted assets	
Cash and cash equivalents	8,537,153
Certificates of deposit	22,000,000
Assets held in trust	161,741
Capital assets	
Capital assets, net of accumulated depreciation of \$36,572,756	57,830,334
Intangible assets	
Bond issue costs, net of accumulated amortization of \$76,428	<u>883,933</u>
Total assets	<u>\$ 125,410,251</u>
<u>Liabilities and Net Assets</u>	
Current liabilities	
Current maturities of long-term debt	\$ 2,035,000
Accounts payable	2,255,069
Accrued expenses	693,513
Deferred revenue	29,122,082
Compensated absences	350,020
Total current liabilities	<u>34,455,684</u>
Noncurrent liabilities	
Bonds payable, net of unamortized discount	<u>54,070,781</u>
Total liabilities	<u>88,526,465</u>
Net assets	
Invested in capital assets, net of related debt	16,838,949
Restricted for other purposes	938,758
Unrestricted	19,106,079
Total net assets	<u>36,883,786</u>
Total liabilities and net assets	<u>\$ 125,410,251</u>

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

Statement of Activities

June 30, 2005

		<u>Program Revenues</u>		Net (Expense)
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	Revenue and
		<u>Services</u>	<u>Grants and</u>	Changes in
			<u>Contributions</u>	<u>Net Assets</u>
Governmental functions				
Instruction	\$ 40,085,817	\$ 556,408	\$ 7,870,580	\$ (31,658,829)
Support services	25,395,892	86,109	35,153	(25,274,630)
Operation of non-instructional services	2,827,700	1,542,578	810,432	(474,690)
Other	361,164	-	-	(361,164)
Interest on long-term debt	2,257,645	-	-	(2,257,645)
Agent's fees on long-term debt	<u>75,539</u>	<u>-</u>	<u>-</u>	<u>(75,539)</u>
Total	<u>\$ 71,003,757</u>	<u>\$ 2,185,095</u>	<u>\$ 8,716,165</u>	<u>(60,102,497)</u>
General revenues				
Local property taxes				36,500,319
Investment income				423,200
Unrestricted state aid				28,465,594
Miscellaneous				<u>452,858</u>
Total general revenues				<u>65,841,971</u>
Change in net assets				5,739,474
Net assets - beginning of year				<u>31,144,312</u>
Net assets - end of year				<u>\$ 36,883,786</u>

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

Balance Sheet – Governmental Funds

June 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 7,743,842	\$ -	\$ 127,400	\$ 7,871,242
Receivables				
Taxes, net of allowance for uncollectibles of \$575,721	27,568,637	-	-	27,568,637
Accrued interest receivable	283,628	-	-	283,628
Note receivable	150,000	-	-	150,000
Inventories, at cost	-	-	17,424	17,424
Restricted assets				
Cash and cash equivalents	-	7,721,461	815,692	8,537,153
Certificates of deposit	-	8,800,000	13,200,000	22,000,000
Assets held in trust	-	-	161,741	161,741
 Total assets	 <u>\$ 35,746,107</u>	 <u>\$ 16,521,461</u>	 <u>\$ 14,322,257</u>	 <u>\$ 66,589,825</u>
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities</u>				
Accounts payable	\$ 67,688	\$ 2,187,381	\$ -	\$ 2,255,069
Other current liabilities	589,896	-	-	589,896
Deferred revenue	<u>29,122,082</u>	<u>-</u>	<u>-</u>	<u>29,122,082</u>
Total liabilities	<u>29,779,666</u>	<u>2,187,381</u>	<u>-</u>	<u>31,967,047</u>
 <u>Fund balances</u>				
Reserved for inventory	-	-	17,424	17,424
Reserved for debt service	-	-	161,741	161,741
Unreserved report in				
General fund	5,966,441	-	-	5,966,441
Capital projects fund	-	14,334,080	-	14,334,080
Special revenue fund	-	-	14,143,092	14,143,092
Total fund balances	<u>5,966,441</u>	<u>14,334,080</u>	<u>14,322,257</u>	<u>34,622,778</u>
 Total liabilities and fund balances	 <u>\$ 35,746,107</u>	 <u>\$ 16,521,461</u>	 <u>\$ 14,322,257</u>	 <u>\$ 66,589,825</u>

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

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

June 30, 2005

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

Total fund balances-total governmental funds	\$ 34,622,778	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.		57,830,334
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.		
Compensated absences	<u>\$ (350,020)</u>	(350,020)
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 discounts	(56,105,781)	
Accrued interest on bonds payable	(103,617)	
Bond issue costs, net of accumulated amortization	<u>883,933</u>	
		(55,325,465)
Other adjustments - prepaid insurance		<u>106,159</u>
Total net assets-governmental activities		<u>\$ 36,883,786</u>

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

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

For the Year Ended June 30, 2005

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local property taxes	\$ 36,500,319	\$ -	\$ -	\$ 36,500,319
Meal sales	-	-	1,520,850	1,520,850
Investment income	377,171	46,029	-	423,200
Other local revenues	478,314	-	-	478,314
State assistance	31,640,264	-	322,933	31,963,197
Restricted federal aid	-	-	5,857,351	5,857,351
Total revenues	68,996,068	46,029	7,701,134	76,743,231
Expenditures				
Current				
Instruction	35,605,260	-	1,854,192	37,459,452
Support services	22,748,271	-	2,661,868	25,410,139
Operation on non-instructional services	-	-	2,827,700	2,827,700
Facilities acquisition and construction services	-	(1,881)	-	(1,881)
Other	17,386	-	50,301	67,687
Capital outlay	367,834	5,997,514	1,811,355	8,176,703
Debt service				
Principal	-	-	2,015,000	2,015,000
Interest	-	-	2,341,827	2,341,827
Paying agent fees	-	-	75,540	75,540
Total expenditures	58,738,751	5,995,633	13,637,783	78,372,167
Excess of revenues over (under) expenditures	10,257,317	(5,949,604)	(5,936,649)	(1,628,936)
Other financing sources (uses)				
Proceeds of refunding bonds	-	9,839,688	-	9,839,688
Operating transfers	(12,003,662)	(683,200)	12,686,862	-
Total other financing sources (uses)	(12,003,662)	9,156,488	12,686,862	9,839,688
Excess of revenues and other sources over (under) expenditures and other uses	(1,746,345)	3,206,884	6,750,213	8,210,752
Fund balances - beginning of year	7,712,786	11,127,196	7,572,044	26,412,026
Fund balances - end of year	\$ 5,966,441	\$ 14,334,080	\$ 14,322,257	\$ 34,622,778

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, 2005

Net change in fund balances-total governmental funds	\$ 8,210,752
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays 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.	5,749,606
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	2,015,000
Proceeds of bond issuances are another financing source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	(10,009,654)
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.	51,198
The statement of activities includes amortization of bond issue costs, discounts and premiums, which is not recognized in the governmental funds.	(92,407)
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. They are, however, reported as expenses in the statement of activities when the liability is incurred.	
Teachers' retirement payable	(199,268)
Other adjustments and reclassification differences	<u>14,247</u>
Change in net assets of governmental activities	<u>\$ 5,739,474</u>

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

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private-Purpose Trust <u>Fund</u>	Agency <u>Fund</u>
<u>Assets</u>		
Cash	\$ 21,545	\$ 189,977
<u>Liabilities</u>		
Due to agencies	<u>-</u>	<u>189,977</u>
<u>Net Assets</u>		
Held in trust for private purposes	<u>\$ 21,545</u>	<u>\$ -</u>

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private-Purpose Trust <u>Fund</u>
Additions	
Contributions	\$ 32,723
Deductions	
Scholarships	<u>20,582</u>
Change in net assets	12,141
Net assets - beginning of year	<u>9,404</u>
Net assets - end of year	<u>\$ 21,545</u>

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

Notes to Financial Statements

June 30, 2005

1. Organization and Summary of Significant Accounting Policies

- a. **Reporting entity** – Fayetteville School District #1 (the “District”) is a political sub-division 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 reporting entity.
- b. **Basis of presentation** – The District’s basic financial statements consist of government-wide statements, including a statement of net assets, a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the non-fiduciary activities. These statements include the non-fiduciary financial activities of the District. These statements report those activities of the District 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 District’s governmental activities at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by a given function or program revenues. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The *general fund* is the District’s primary operating fund. It accounts for all financial resources of the District, 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 non-expendable trust funds.

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies (cont.)

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

The *private purpose trust fund* accounts for activities that are not District programs but are programs sponsored by private organizations or other governments. Although the District serves as fiscal agent, the funds received and held under these programs are not available to support the District's activities and programs but are received and held for the benefit of individuals, private organization 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 District holds 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 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 District considers 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 district expenditures is recognized when the related expenditures are incurred; accordingly when such funds are received, they are reported as deferred revenues until earned. Expenditures are recognized when the liability is incurred, except for claims,

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies (cont.)

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.

Non-exchange transactions, in which the District receives 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 District on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

- d. **Inventories** – Inventories are stated at cost (first-in, first-out method). The inventories are equally offset by a fund balance reserve which indicates they do not constitute “available spendable resources” even though they are a component of net current assets. Inventories consists 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.
- e. **Capital assets** – General capital assets generally result from expenditures in the governmental funds which have an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statement balance sheet-governmental funds.

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

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

- f. **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 interest method.

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies (cont.)

- g. **Compensated absences** – The District provides substantially all teachers and other employees one day of paid sick leave for each month contracted or employed. The District's professional staff's unused leave is carried over to the next school year and is cumulative. The District's classified staff can accumulate up to 90 days after which unused sick leave shall accrue at 3 days per year to an unlimited number of days. Employees who resign and are later re-employed by the District may regain all accumulated and unused sick leave benefits. Accumulated 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.
- h. **Accrued liabilities and long-term obligations** – All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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

- i. **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.

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

- j. **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.

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies (cont.)

- k. **Long-lived assets** – The District reviews the carrying value of property and equipment for impairment whenever certain triggering events and circumstances indicate that the carrying value of an asset may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying amount exceeds the fair value of assets. The factors considered by management in performing this assessment include operating results, trends, prospects, as well as the effects of other economic factors. Based on management's assessment, no triggering events occurred during the year ended June 30, 2005.
- l. **Restricted assets** – The District's restricted assets include funds allocated to comply with certain requirements of its debt instruments for payments of principal and interest and special revenue funds, which represent grants and contributions that are restricted to meet the requirements of a particular function or activity.

2. 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 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 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 District has established a policy which deposits and restricted assets are to be secured by collateral, reduced by the amount of insurance provided by Federal Deposit Insurance Corporation. The District's deposits are categorized below to give an indication of the level of risk assumed by the District at June 30, 2005. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 – Collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name.
- Category 3 – Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the entity's name.

Notes to Financial Statements

June 30, 2005

2. Deposits (cont.)

<u>Description</u>	<u>Category</u>			<u>Total Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash and cash equivalents	\$ 16,619,917	\$ -	\$ -	\$ 16,619,917
Certificates of deposit	<u>22,000,000</u>	-	-	<u>22,000,000</u>
	<u>\$ 38,619,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,619,917</u>

At June 30, 2005, none of the District's balances were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits shown above are included in the fund financial statements at June 30, 2005 as follows:

Carrying value Deposits	<u>\$ 38,619,917</u>
----------------------------	----------------------

Included in the following fund financial statement captions:

Balance sheet - government funds	
Cash and temporary investments	7,871,242
Internally designated cash and cash equivalents	6,500,000
Restricted	
Cash and temporary investments	24,037,153
Statement of fiduciary net assets	
Private-purpose trust funds	21,545
Agency cash	<u>189,977</u>
	<u>\$ 38,619,917</u>

3. Property Taxes

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 District, net of a collection fee. The 2004 assessed valuation upon which taxes will be levied in 2005 is \$868,356,819.

Notes to Financial Statements

June 30, 2005

3. Property Taxes (cont.)

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

The District recognizes an allowance of \$575,721 for uncollectible taxes as determined by management and the District's historical experience.

4. Capital Assets

Capital asset balances and activity for the year ended June 30, 2005 were as follows:

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance <u>June 30, 2005</u>
Land	\$ 2,082,332	\$ -	\$ -	\$ -	\$ 2,082,332
Construction in progress	801,523	4,943,050	-	(801,523)	4,943,050
Buildings	73,814,465	107,540	-	801,523	74,723,528
Machinery and equipment	5,713,691	3,065,743	-	-	8,779,434
Vehicles	<u>3,814,376</u>	<u>60,370</u>	<u>-</u>	<u>-</u>	<u>3,874,746</u>
	86,226,387	8,176,703	-	-	94,403,090
Less accumulated depreciation	<u>34,145,659</u>	<u>2,427,097</u>	<u>-</u>	<u>-</u>	<u>36,572,756</u>
	<u>\$ 52,080,728</u>	<u>\$ 5,749,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,830,334</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,504,800
Support services	873,755
Operation of non-instructional services	<u>48,542</u>
	<u>\$ 2,427,097</u>

Notes to Financial Statements**June 30, 2005****5. Internally Designated Assets**

Internally designated assets include \$13,200,000 of cash and certificates of deposits, which have been designated by the District's management for capital outlay.

6. Employee Retirement Systems and Plans**Arkansas Teacher Retirement System ("System")**

Plan Description – The District contributes to the Arkansas Teacher Retirement System ("System"), a cost-sharing multiple-employer defined benefit plan administered by the System. Section 24-7-301 of the Arkansas Code of 1987 Annotated assigns the authority to establish and amend benefit provisions to the System's Board of Trustees. The System provides retirement, death and disability benefits and annual cost-of-living adjustments to plan members. The System 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, AR 72201 or by calling (501) 682-1517.

Funding Policy – The District contributes from state funding 14% of all covered employees' prior year salaries except employees whose salaries are funded by the Federal programs administered by the District. The District contributes 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 District is set forth in state law and is vested in the System's Board of Trustees. The contributions from the District for the year ended June 30, 2005 were \$5,807,042, which consisted of \$376,737 from state funding and \$5,430,305 from federal funding, the contributions from the District for the year ended June 30, 2004 were \$4,613,137, which consisted of \$4,317,557 from state funding and \$295,580 from federal funding, and the contributions from the District for the year ended June 30, 2003 were \$3,913,841, which consisted of \$3,672,785 from state funding and \$241,056 from federal funding.

Arkansas Public Employees Retirement System ("System")

Plan Description – For certain other employees, the District contributes to the Arkansas Public Employees Retirement System ("System"), a cost-sharing multiple-employer defined benefit plan administered by the System. The System provides retirement, death, and disability benefits and annual cost-or-living adjustments to plan members. The System 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, AR 72201 or by calling (501) 682-7800.

Funding Policy – The District contributes 4% of covered employees' salaries to the plan. The District's contributions for the year ended June 30, 2005, 2004 and 2003, were \$33,299, \$33,017, and \$30,789, respectively.

Notes to Financial Statements

June 30, 2005

7. Long-Term Liabilities

Long-term liability balances and activity for the year ended June 30, 2005 were as follows:

	Balance <u>June 30, 2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2005</u>	Amounts Due <u>in One Year</u>
Bonds payable					
General obligation bonds	\$ 49,744,024	\$ 10,000,000	\$ 2,015,000	\$ 57,729,024	\$ 2,035,000
Less deferred issuance premiums (discounts)	(20,618)	9,653	(7,741)	(3,224)	(7,741)
Less deferred refundings	<u>(1,864,237)</u>	<u>-</u>	<u>(244,218)</u>	<u>(2,108,455)</u>	<u>(235,578)</u>
Bonds payable, net	47,859,169	10,009,653	1,763,041	55,617,345	1,791,681
Compensated absences	<u>150,752</u>	<u>199,268</u>	<u>-</u>	<u>350,020</u>	<u>37,512</u>
Total long-term liabilities	<u>\$ 48,009,921</u>	<u>\$ 10,208,921</u>	<u>\$ 1,763,041</u>	<u>\$ 55,967,365</u>	<u>\$ 1,829,193</u>

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

General Obligation Bonds – The District issues 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 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 numerical order for redemption prior to maturity.

Qualified Zone Academy Bonds (QZAB) – During the fiscal year ended June 30, 2004, the District obtained funding through the Qualified Zone Academy Bond (“QZAB”) program, a financial arrangement created by the Tax Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the debt instrument receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$755,000 and \$1,059,024 using this method by issuing general obligation bonds. The District is required to deposit \$53,929 and \$70,602 annually into a trust account for ten years for each of the bond issues. The cumulative amount deposited plus interest will be used to retire the debt when due.

Notes to Financial Statements

June 30, 2005

7. Long-Term Liabilities (cont.)

A summary of each bond issue is as follows:

<u>Date of Issue</u>	<u>Amount of Original Issue</u>	<u>Interest Rate Percent</u>	<u>Payment Dates</u>	<u>Range of Annual Maturities</u>
11/01/02	\$ 755,000	-	N/A	\$ - / 755,000
12/01/02	\$ 1,276,700	3.50/4.50	06-01/12-01	\$ 61,700 / 360,000
08/05/03 A	\$ 24,160,000	2.00/5.00	06-01/12-01	\$ 165,000 / 2,390,000
08/05/03 B	\$ 12,810,000	2.50/4.40	06-01/12-01	\$ 1,055,000 / 1,385,000
09/01/03	\$ 1,059,024	-	N/A	\$ - / 1,059,024
10/01/03	\$ 11,480,000	2.00/4.50	06-01/12-01	\$ 420,000 / 930,000
07/01/04	\$ 1,000,000	2.00/5.00	06-01/12-01	\$ 275,000 / 635,000

General obligation bond debt service requirements at June 30, 2005 are as follows:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2006	\$ 2,035,000	\$ 2,331,408	\$ 124,531	\$ 4,490,939
2007	2,100,000	2,284,583	124,531	4,509,114
2008	2,150,000	2,235,798	124,531	4,510,329
2009	2,225,000	2,175,618	124,531	4,525,149
2010	2,300,000	2,105,423	124,531	4,529,954
2011-2015	11,435,000	9,156,686	498,124	21,089,810
2016-2020	10,609,024	7,092,265	(1,120,779)	16,580,510
2021-2025	11,020,000	4,994,986	-	16,014,986
2026-2030	13,855,000	2,136,000	-	15,991,000
	<u>\$ 57,729,024</u>	<u>\$ 34,512,767</u>	<u>\$ -</u>	<u>\$ 92,241,791</u>

Act 661 of 1981 of the Arkansas School Laws, limits the outstanding amount of authorized general obligation bonds of a district to 27% of the assessed valuation of the real and personal property in the District. The legal debt margin of the District at June 30, 2005 was:

Statutory debt limit	
2005 assessment	\$ 868,356,819
Rate	X 27%
	234,456,341
Less outstanding general obligation bonds	<u>57,729,024</u>
	<u>\$ 176,727,317</u>

Notes to Financial Statements

June 30, 2005

8. Construction Commitments

At June 30, 2005, the District had several construction and repair and maintenance projects in various stages of completion. Unfulfilled contract commitments of approximately \$14,176,000 remained open on the construction and improvement contracts still in progress at June 30, 2005.

9. Contingent Liabilities

The District participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is 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 non-compliance which would result in the disallowance of program expenditures.

10. Subsequent Event

On September 1, 2005, the District issued \$4,000,000 in construction bonds for purposes of constructing district facilities.

11. Risk Management

The District is 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 District has joined with other school districts 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 District pays 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.

**Budgetary Comparison Schedule
General Fund**

June 30, 2005

	<u>Budget Amounts</u>			Variances - Actual Over Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Local property taxes	\$ 32,599,918	\$ 32,599,918	\$ 36,500,319	\$ 3,900,401
Interest	500,000	500,000	377,171	(122,829)
Other local revenues	881,418	881,418	478,314	(403,104)
State assistance	<u>29,801,470</u>	<u>29,801,470</u>	<u>31,640,264</u>	<u>1,838,794</u>
Total revenue	<u>63,782,806</u>	<u>63,782,806</u>	<u>68,996,068</u>	<u>5,213,262</u>
Expenditures				
Current				
Instruction	36,370,371	36,370,371	35,605,260	765,111
Support services	22,306,828	22,306,828	22,748,271	(441,443)
Other	-	-	17,386	(17,386)
Capital outlay	<u>-</u>	<u>-</u>	<u>367,834</u>	<u>(367,834)</u>
Total expenditures	<u>58,677,199</u>	<u>58,677,199</u>	<u>58,738,751</u>	<u>(61,552)</u>
Excess of revenues over (under) expenditures	<u>\$ 5,105,607</u>	<u>\$ 5,105,607</u>	<u>\$ 10,257,317</u>	<u>\$ 5,151,710</u>

Notes to Required Supplementary Information

For the Year Ended June 30, 2005

Note A – Budgets

Budgets for District governmental funds are prepared on the modified accrual basis of accounting.

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

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

<u>Cluster/Program</u>	<u>Federal Agency / Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
U.S. Department of Education			
Carl Perkins - Direct and Equitable	AR Department of Workforce Education	84.002A	\$ 118,646
Carl Perkins - Correctional Adult Education	AR Department of Workforce Education	84.002A	19,929
E.S.E.A. Title I, Part A Title I Grants to Local Education Agencies	AR Department of Education	84.010	1,637,156
E.S.E.A. Title VI, Part B Education for All Handicapped Children Sliver Grant	AR Department of Education AR Department of Education	84.027 84.027	1,411,859 16,602
Carl Perkins - Basic Entitlement	AR Department of Workforce Education	84.048	138,806
Education for Homeless Children and Youth	AR Department of Education	84.196	37,321
Carl Perkins - Tech Prep	AR Department of Workforce Education	84.243A	58,832
Twenty First Century Grant	AR Department of Education	84.287	95,302
E.S.E.A. Title VI - Innovative Education Program Strategies	AR Department of Education	84.298	50,965
Title II, Part D Education Technology State Grants	AR Department of Education	84.318	56,678
Comprehensive School Reform	AR Department of Education	84.332	55,445
Reading Excellence	AR Department of Education	84.338	17,569
Arts in Education	Department of Arkansas Heritage	84.351	2,072
English Language Acquisition Grants	AR Department of Education	84.365	87,890
Title II, Part A Improving Teacher Quality State Grants	AR Department of Education	84.367	425,013
U.S. Department of Agriculture			
Food Distribution	AR Department of Human Services	10.550	135,631
Child Nutrition Cluster			
School Breakfast Program	AR Department of Education	10.553	274,723
National School Lunch Program	AR Department of Education	10.555	847,759
Summer Food Program	AR Department of Education	10.559	19,479
Child and Adult Care Food Program	AR Department of Education	10.558	19,728

Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2005

<u>Cluster/Program</u>	<u>Federal Agency / Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Amount Expended</u>
	U.S. Department of Justice		
Drug Abuse Prevention	AR Department of Education	16.005	\$ 3,577
	U.S. Department of Health and Human Services		
Abstinence Grant	AR Department of Health	93.235	441,317
	Corporation for National and Community Service		
Learn and Serve	AR Department of Education	94.004	<u>27,809</u>
			<u>\$ 6,000,108</u>

Notes to Schedule:

1. This schedule includes the federal awards activity of Fayetteville School District #1 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, Fayetteville School District #1 provided federal awards to subrecipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Amount Provided</u>
----------------	--------------------	---------------------	------------------------

No awards were provided to subrecipients.

3. The District received \$56,205 in Medicaid funding from the Arkansas Department of Human Services.

Supplemental Data Sheet

June 30, 2005

Name and address:	Fayetteville School District # 1 1000 W. Stone Street Fayetteville, Arkansas 72701
Employer Identification Number:	61-6021514
Telephone Number:	479-444-3000
Superintendent:	Dr. Bobby New
Contact Person:	Dr. Lisa Morstad

**Independent Accountants' Report on Compliance and
Internal Control Over Financial Reporting Based on the Audit of the
Financial Statements in Accordance with *Government Auditing Standards***

The School Board
Fayetteville School District #1
Fayetteville, Arkansas

We have audited the financial statements of Fayetteville School District #1 as of and for the year ended June 30, 2005 and have issued our report thereon dated November 9, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Board, management and 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.

Moore Stephens Frost

Certified Public Accountants

Little Rock, Arkansas
November 9, 2005

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

The School Board
Fayetteville School District #1
Fayetteville, Arkansas

Compliance

We have audited the compliance of Fayetteville School District #1 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, 2005. The District'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 the District's management. Our responsibility is to express an opinion on the compliance of Fayetteville School District #1 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 non-compliance 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 District'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 on the District's compliance with those requirements.

In our opinion, the District 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, 2005.

Internal Control Over Compliance

The management of the District 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 the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended solely for the information and use of the School Board, management and 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.

Maare Stephens Frost

Certified Public Accountants

Little Rock, Arkansas
November 9, 2005

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

Summary of Auditor's Results

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

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

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

Reportable condition(s) noted considered material weakness(es)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

Reportable condition(s) that are not considered to be a material weakness?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

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

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

Reportable condition(s) noted considered material weakness(es)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

Reportable condition(s) that are not considered to be a material weakness?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Yes	No

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

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

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

Schedule of Findings and Questioned Costs (cont.)

For the Year Ended June 30, 2005

7. The District's major programs were:

Cluster/Program	CFDA Number
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
E.S.E.A Title VI, Part B	
Education for All Handicapped Children	84.027

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 Organization 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.

Summary of Schedule of Prior Audit Findings

For the Year Ended June 30, 2005

<u>Reference Number</u>	<u>Summary of Findings</u>	<u>Status</u>
-------------------------	----------------------------	---------------

No matters are reportable.

Independent Accountants' Report on Compliance With Arkansas State Requirements

The School Board
Fayetteville School District #1
Fayetteville, Arkansas

We have examined management's assertions that Fayetteville School District #1 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, 2005. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's 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, including 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, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2005.

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.

Moore Stephens Frost

Certified Public Accountants

Little Rock, Arkansas
November 9, 2005



February 23, 2006

Budget Revisions

TO: Board of Education

FROM: Lisa Morstad

I will present budget revisions to the 2005-06 budget for your approval.

**Executive Summary Financial Report
Fayetteville Public Schools
FY2005-06**

2/16/2006

	Actuals FY05 Budget	FY06 Budget	Proposed Revised FY06 Budget	Change	%	Note
Revenues:						
Uncommitted Cfdw	\$ 2,503,147.80	\$ 500,000.00	\$ 2,220,199.28	\$ 1,720,199.28	344%	a
Restricted Carryforwards	\$ 1,378,734.19	\$ 1,500,000.00	\$ 2,898,475.49	\$ 1,398,475.49	93%	b
State Funds	\$ 28,086,467.50	\$ 25,552,019.75	\$ 26,002,954.50	\$ 450,934.75	2%	
Local Funds	\$ 34,452,019.91	\$ 34,969,741.76	\$ 37,140,704.41	\$ 2,170,962.65	6%	c
Interest on checking account	\$ 228,610.67	\$ 225,000.00	\$ 463,985.46	\$ 238,985.46	106%	d
Fed Funds/Grants/Restricted	\$ 6,641,749.83	\$ 7,000,000.00	\$ 7,083,658.00	\$ 83,658.00	1%	e
Vocational Education	\$ 1,354,028.40	\$ 866,000.00	\$ 329,604.00	\$ (536,396.00)	-62%	f
Pepsi Contract	\$ 207,418.00	\$ 207,418.00	\$ 207,418.00	\$ -	0%	
Athletic Gate Receipts	\$ 111,947.00	\$ 100,000.00	\$ 118,000.00	\$ 18,000.00	18%	g
E-rate	\$ 50,026.96	\$ 50,000.00	\$ 50,000.00	\$ -	0%	
Miscellaneous	\$ 274,497.59	\$ 125,000.00	\$ 150,000.00	\$ 25,000.00	20%	h
Food Service sales	\$ 1,481,948.19	\$ 1,410,000.00	\$ 1,245,000.00	\$ (165,000.00)	-12%	i
Reserve	\$ 4,287,214.24	\$ 4,287,214.24	\$ 4,287,214.24	\$ -	0%	
Total Revenues & Reserve:	\$ 81,057,810.28	\$ 76,792,393.75	\$ 82,197,213.38	\$ 5,404,819.63		
Expenditures:						
Salaries	\$ 46,372,382.57	\$ 47,116,164.96	\$ 47,760,861.62	\$ 644,696.66	1%	**
Fringe Benefits	\$ 10,620,358.59	\$ 11,779,041.24	\$ 11,940,215.41	\$ 161,174.16	1%	**
Debt Service Payments	\$ 4,540,223.79	\$ 4,502,154.17	\$ 4,778,936.47	\$ 276,782.30	6%	j
Maintenance & Operations:				\$ -		
Maintenance	\$ 1,251,649.12	\$ 1,048,743.10	\$ 1,098,743.10	\$ 50,000.00	5%	k
Utilities	\$ 1,247,159.39	\$ 1,192,693.65	\$ 1,569,173.65	\$ 376,480.00	32%	l
Transportation	\$ 667,058.47	\$ 510,213.30	\$ 660,213.30	\$ 150,000.00	29%	l
Food Service	\$ 1,080,613.86	\$ 843,557.10	\$ 843,557.10	\$ -	0%	
Technology	\$ 444,897.53	\$ 441,864.00	\$ 491,864.00	\$ 50,000.00	11%	h
Curriculum & Instruction	\$ 1,749,326.16	\$ 1,494,251.66	\$ 1,494,251.66	\$ -	0%	
School Improv/Prog. Devlp.	\$ 221,468.91	\$ 170,721.69	\$ 170,721.69	\$ -	0%	
Athletics/Physical Education	\$ 259,702.69	\$ 207,804.91	\$ 207,804.91	\$ -	0%	
Grant Expenditures (not personnel)	\$ 1,561,798.43	\$ 1,820,000.00	\$ 1,820,000.00	\$ -	0%	
Miscellaneous	\$ 418,547.57	\$ 393,519.72	\$ 393,519.72	\$ -	0%	
Tuition	\$ -	\$ 984,450.00	\$ 360,000.00	\$ (624,450.00)	-63%	f
Reserve	\$ 4,287,214.24	\$ 4,287,214.24	\$ 5,281,200.00	\$ 993,985.76	23%	m
FY 2004 Restricted Carryforward	\$ 1,378,734.19			\$ -		
FY 2005 Restricted Carryforward	\$ 2,220,199.28	\$ 1,500,000.00	\$ 2,898,475.49	\$ 1,398,475.49	93%	b
FY 2006 Unrestricted Carryforward	\$ 2,898,475.49		\$ 427,675.25	\$ 427,675.25		
Total Expenditures & Reserve:	\$ 81,219,810.28	\$ 76,792,393.75	\$ 82,197,213.38	\$ 3,904,819.63		

Executive Summary
Fayetteville Public Schools
FY2005-2006
Notes to Budget Revisions

- a. Revision reflects actual year end balances
- b. Revision reflects actual year end balances due to timing of expenditures
- c. Increase is due to better collection rates in current taxes than projected
- d. Increase is due to higher interest rates being received on cash deposits and investments.
- e. Increase in restricted funding is due to a projected \$170,000 in federal reimbursements for food service net of other projected decreases.
- f. Decrease in vocational funding and tuition expense are related to lower participation in vocational programs than projected.
- g. Increase is related to higher ticket sales for football season than originally projected.
- h. Net increase is due to a \$50,000 increase in funding to be received for technology services and a decrease in overall miscellaneous funding of \$25,000
- i. Lower sales of \$165,00 reflect changes in State nutritional requirements. This decrease is offset by an increase in projected federal reimbursements of \$170,000 in note e.
- j. Increase is due to payment for \$700k in QZAB bonds and proposed payment of an additional \$500k in QZAB bonds plus other fees not anticipated in June.
- k. Increase reflects unanticipated costs related to the rezoning project and other district repairs.
- l. Increase is due to the increased cost of fuel.
- m. Increase is to adjust reserves to meet board goals for one month's payroll and one month's accounts payable requirements for FY06.



February 23, 2006

Ethics Law Disclosures

TO: Board of Education

FROM: Lisa Morstad

I will be asking for board approval of the ethics law disclosures.



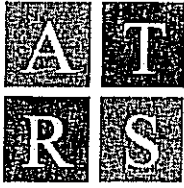
February 23, 2006

Arkansas Teacher Retirement Resolution

TO: Board of Education

FROM: Lisa Morstad

I will request that the Board pass a resolution which would allow employees to elect to be contributory to Arkansas Teacher Retirement the next fiscal year.



Arkansas
Teacher
Retirement
System

1400 West Third, Little Rock, AR 72201
Phone (501) 682-1517 or (800) 666-2877
Website - <http://www.atrs.state.ar.us>
Email - info@atrs.state.ar.us

MEMORANDUM

TO: Superintendents of Schools, and Administrators of Certain Other Agencies
Participating in the Arkansas Teacher Retirement System

FROM: David Malone, Executive Director *DM*

SUBJECT: Opening of Contributory Window July 1, 2006

DATE: January 30, 2006

Acts 23 and 47 of 2nd Extraordinary Session of 2003 as amended by Act 385 of 2005 allow active members of the Teacher Retirement System who previously elected to be noncontributory (by signing an Irrevocable Noncontributory Election Form) to make an irrevocable election to become contributory members. This option is to be effective each July 1, beginning with July 1, 2006. Please note that our IRS ruling does not permit changes from contributory to noncontributory.

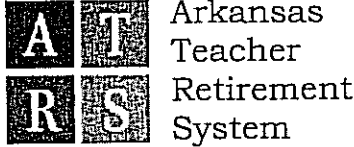
Before we can implement the changes for this window, we must have the enclosed Payroll Reduction (Employer Pick-Up) Resolution adopted by the governing board, or if none, the agency director, and returned to Teacher Retirement by April 30, 2006. This is an Internal Revenue Service requirement. The Resolution should be signed by a Governing Board Official or the Agency Director. It is mandatory we receive the signed Resolution in order for your eligible employees to take advantage of the contributory window beginning with the 2006-07 fiscal year. Appropriate new forms will only be made available to you upon our receipt of a signed Resolution.

For your information, we are enclosing a copy of the last Pick-Up Resolution signed by your Governing Board or Agency Director. The old Resolution will not cover employees returning to contributory status under the window. If you have any questions about this Resolution, please contact our office at the address or telephone numbers listed above. Any assistance you can provide in helping us make eligible members aware of this opportunity will be appreciated.

Enclosures

cc: Bookkeepers and Payroll Officers

*The IRS has not approved the participation of the following employers in this window: AR Activities Assoc. 4857, AR Association of Educ. Adm. 6875, AR School Boards Ins. Trust 6870, AR Easter Seals Society 6864, , Jefferson County Adult Ed. 1375, Laidlaw Transit 6873, Literacy Council of Lonoke 6876.



Payroll Reduction (Employer Pick-Up) Resolution

Whereas, Internal Revenue Code (IRC) Section 414(h)(2) permits employer "pick-up" of the employee portion of contributions to a retirement plan, thereby resulting in tax deferral of employee contributions; and

Whereas, under the Arkansas Teacher Retirement System (ATRS) plan conditions, members may be allowed to make additional contributions, back contributions, conversion contributions, repayment contributions or purchased service contributions through payroll reductions

THEREFORE, BE IT RESOLVED, that as an Employer (as defined in A.C.A. § 24-7-202) under the ATRS Act, the undersigned shall make all member contributions required by A.C.A. § 24-7-406, and that the employees of such Employer may not elect to receive such contributions directly. This resolution shall apply to all teacher and nonteacher employees as defined in A.C.A. § 24-7-406.

FURTHER RESOLVED, that the undersigned shall pick up the member contributions required by A.C.A. § 24-7-406 from the salary earned by a member after June 30, 2006, and those contributions shall then be treated as employer contributions in determining tax treatment under the provisions of the Internal Revenue Code and the Income Tax Act of 1929, §§ 26-51-101 et seq. If a member elects to make additional contributions, back contributions, conversion contributions, repayment contributions or purchased service contributions through payroll reductions, the undersigned shall pick up the amount required to make such contributions from the employee's salary earned after the employee signs an irrevocable payroll authorization prescribed by ATRS, and those contributions shall then be treated as employer contributions in determining tax treatment under the provisions of the Internal Revenue Code and the Income Tax Act of 1929, §§ 26-51-101 et seq.

Effective Date: The above resolutions shall be effective on the later of July 1, 2006 or the date of approval by the undersigned.

District/Agency: _____

Approved by the Governing Board (or if none, the Agency Director) on (date): _____

Name of District/Agency Representative: _____

Signature: _____

This Resolution should be filed with ATRS and a copy retained by employer.



February 23, 2006

District Technology Plan

TO: Board of Education

FROM: Susan Cromwell

I will ask for approval of the district's technology plan that will be submitted to the Arkansas Department of Education. The plan can be accessed by choosing Administration, then Technology, on the district website (www.fayar.net). The plan is located under the heading "Director, District Technology Programs" on the Technology page.



February 23, 2006

Elementary Textbook Adoption

TO: Board of Education

FROM: Judy Rana

I will ask the Board to approve the adoption of Everyday Math for K-5.



February 23, 2006

Jefferson Task Force Update

TO: Board of Education

FROM: Mike Gray & Tim Kring

We will present information regarding the work of the Jefferson Task Force.