

**FORT SMITH SCHOOL DISTRICT #100**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2016**



# FORT SMITH SCHOOL DISTRICT #100

JUNE 30, 2016

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## **Independent Auditor's Report**

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To the School Board  
Fort Smith School District #100  
Fort Smith, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, major funds, and aggregate remaining fund information of the **Fort Smith School District #100 (the District)** as of and for the year ended **June 30, 2016**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, major funds, and the aggregate remaining fund information of the **Fort Smith School District #100**, as of **June 30, 2016**, and the respective changes in financial position of those activities and funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and information for cost-sharing employer plans on pages 4 through 11, and 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

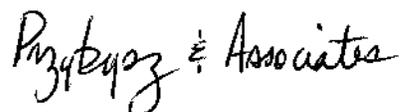
#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Fort Smith School District #100** financial statements. The schedule of expenditures of state awards, school lunch fund information, and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for the purposes of additional analysis and are not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards, school lunch fund information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 12, 2017**

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# **FORT SMITH PUBLIC SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2016**

This section of the Fort Smith Public School District's annual financial report provides an overall review of the District's financial performance for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

## **The Impact of GASB 68**

The Governmental Accounting Standards Board (GASB) is responsible for setting standards that establish generally accepted accounting principles (GAAP) for governmental financial statements. GASB 68 is a set of new standards intended to improve transparency and accountability and to standardize actuarial practices in reporting pension obligations. Since the District participates in defined benefit pension plans with Arkansas Teachers Retirement System (ATRS) and Arkansas Public Employees Retirement System (APERS), GASB 68 standards apply to the District's audited financial statements.

These standards continue to distort the financial picture of the District, especially in comparison to the financial years before GASB 68 standards were applied. The District's portion of the net pension liabilities and annual expenses, provided from ATRS and APERS, are incorporated in these financial statements.

Specifically, only the district-wide financial statements reflect the effects of the GASB 68 standards. These statements on page 12 include line items listed in the deferred outflows section and the entire section of deferred inflows. The biggest impact is the amount listed as net pension liability in the noncurrent liabilities section. As in the previous year, the consequences of GASB 68 to the District's net position make the district-wide financial statements less useful to the reader. The fund financial statements, starting on page 14, are not impacted and become a better source of information, verifying the overall good health of the District's financial position.

- As mentioned, page 12 reflects a noncurrent liability called net pension liability of \$102.2 million. Deferred inflows adds another \$28.6 million dollars in obligations. This \$130.8 million impact is more than the negative unrestricted undesignated net position of \$86.1 million.
- Total revenues increased by \$5.4 million or 3.6% during the year ending on June 30, 2016. Expenses for various programs and operations increased by \$4.5 million or 3.2%. Therefore, ending net assets increased \$0.9 million more than the previous year's increase.
- Prior year calculations support the point that removing the \$104.3 million GASB 68 impact left an ending net position of \$99.4 million at June 30, 2015. Likewise, removing the \$98.4 million GASB 68 impact leaves an ending net position of \$102.2 million at June 30, 2016. Excluding pension costs related to GASB, ending net position would have increased by \$2.8 million.

Notwithstanding the GASB 68 distortions, the Fort Smith Public School District's overall financial position remains stable. Minor increases in enrollment have been accompanied with a small growth in revenue from state funds. While federal revenue has not increased in total, any categorical decreases have been relatively small.

## **Using the Basic Financial Statements**

The basic financial statements are comprised of two distinct series of financial statements, district-wide and fund. The differences between district-wide and fund financial statements are attributable to the accrual basis of accounting versus the modified accrual basis of accounting and are reconciled on pages 15 and 17. Some of the significant differences between these two bases of accounting are accounting for long-term debt balances, proceeds, and repayment; and capitalization and depreciation of fixed assets, and the effects of GASB 68 standards.

## **Fund Financial Statements**

Fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major funds", not the District as a whole. These statements are presented using a current financial resource basis, which measures the District's ability to finance current expenditures, including capital outlay, from current resources. The Balance Sheet on page 14 and the Statement of Revenues, Expenditures and Changes in Fund Balance on page 16 report how services were financed in the short-term as well as what remains for future spending. Fort Smith Public Schools' major funds are the general, debt service, and capital projects funds. All other funds are presented as one column under other governmental funds.

## **District-Wide Financial Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position presented on page 12 includes all of the District's assets and liabilities, and the Statement of Activities on page 13 presents all of the current year's revenues and expenses regardless of when cash is received or paid. The two district-wide statements report the District's net position and how they have changed during the fiscal year. Net position and improvement or deterioration in the net position are factors in measuring the District's financial health or position. To assess the District's overall health, several additional factors such as changes in property tax base, state legislative changes, changing enrollment demographics, and the condition of school facilities must be considered.

## **Financial Analysis of District-Wide Financial Statements**

Net assets of the District on June 30, 2016 reflect an actual excess of assets over liabilities of \$3.8 million. The Statement of Net Position presented on page 12 reflects the details, while the following is a summarized comparison for analysis.

	Governmental Activities			
	2016	2015	\$ of Change	% of Total Change
Current Assets	\$33.1	\$29.1	\$4.0	20.0%
Capital Assets	151.9	155.5	-3.6	-18.0%
Deferred Outflows	32.7	13.1	19.6	98.0%
<b>Total Assets</b>	<b>217.7</b>	<b>197.7</b>	<b>20.0</b>	<b>100.0%</b>
Current Liabilities	7.6	7.5	0.1	0.9%
Non-current Liabilities	177.7	158.1	19.6	173.5%
Deferred Inflows	28.6	37.0	-8.4	-74.4%
<b>Total Liabilities</b>	<b>213.9</b>	<b>202.6</b>	<b>11.3</b>	<b>100.0%</b>
<b>Net Assets:</b>				
Invested in Capital Assets, net of related debt	81.8	80.4	1.4	16.1%
Restricted Net Position	7.4	5.1	2.3	26.4%
Unrestricted Net Position	-85.4	-90.4	5.0	57.5%
<b>Total Net Position</b>	<b>\$3.8</b>	<b>-\$4.9</b>	<b>\$8.7</b>	<b>100.0%</b>

Table 1-1 on the previous page reflects an improvement in the financial position of the District with an \$8.7 million increase in total net position. The increase reflects improvements in all the net asset categories. The continued net spending in capital assets by the District in new buildings, renovations and new equipment exceeded the additional debt added resulting in a net increase of \$1.4 million. Restricted net position increased by a net of \$2.3 million because of sinking funds obligations paid. The increase in undesignated net position of \$5.0 million at the end of the period is primarily driven by the accruals required by GASB 68 discussed earlier.

	Governmental Activities			
	2016	2015	\$ of Change	% of Total Change
<b>Program Revenues:</b>				
Charges for services	\$1.4	\$1.4	\$0.0	0.0%
Operating grants and contributions	40.1	38.4	1.7	31.4%
<b>General Revenues:</b>				
Property taxes	53.7	51.4	2.3	42.6%
Unrestricted grants and contributions	58.6	57.4	1.2	22.2%
Investment earnings	1.3	1.2	0.1	1.9%
Insurance recoveries	0.1	0.0	0.1	1.9%
Miscellaneous	0.0	0.0	0.0	0.0%
<b>Total Revenue</b>	<b>155.2</b>	<b>149.8</b>	<b>5.4</b>	<b>100.0%</b>
<b>Expenses</b>				
Instruction	75.0	71.8	3.2	71.1%
Student and instruction support	24.4	24.1	0.3	6.7%
Administration and business support	11.8	11.4	0.4	8.9%
Operations and maintenance	15.1	15.4	-0.3	-6.7%
Student transportation	3.0	2.9	0.1	2.2%
Food service	7.5	7.3	0.2	4.5%
Other	9.7	9.1	0.6	13.3%
<b>Total Expense</b>	<b>146.5</b>	<b>142.0</b>	<b>\$4.5</b>	<b>100.0%</b>
Increase (decrease) in Net Position	8.7	7.8		
GASB 68 Implementation Adjustment	0.0	-111.0		
Beginning Net Position (with transitional rounding)	-4.9	98.3		
Ending Net Position	\$3.8	-\$4.9		

The information in Table 1-2 (above) from the Statement of Activities is in a slightly different format to allow users to see total revenues and expenses for the years ended June 30, 2016 and 2015.

The results of this year's operations as a whole are reported in the Statement of Activities on page 13. Total expenses are reported in the first column of this report and are reduced by specific charges and grants that directly relate to specific expense categories to yield the final amount of the District's activities that are supported by other general revenues. The District's total revenues increased by 3.6% or \$5.4 million, and total expenses increased by 3.2% or \$4.5 million for the year ended June 30, 2016.

As reflected in the Statement of Activities, the expenses of the District's governmental activities of \$146.5 million are not all borne by the taxpayers. Of this amount, \$1.4 million was paid by patrons who used or benefited from the services rendered, (e.g., charges for school lunches) and \$40.1 million was paid through various federal and categorical state grants. Consequently, after taking into consideration these fees and grants, the net cost of the District's programs of \$105.0 million, an increase of 2.7%, was paid from general revenues. Local property taxes assessed to community taxpayers and the state formula aid provide most of the District's general revenue, with each contributing about 47% and 52% respectively. Increases in total revenues were caused by increased program funds of \$1.7 million and an increase in general revenues of \$3.7 million. The majority of the increase in general revenues is an increase of property tax collections of \$2.3 million.

Again, GASB 68 makes comparisons of annual expenses difficult. Total expenses increased \$4.5 million, but \$0.8 million of this is due to current year expenses associated with GASB 68 pension adjustments. The remaining \$3.7 million increase reflects spending patterns consistent with the increase in revenue previously discuss.

Table 1-3  
Fort Smith Public School District  
Condensed Schedule of Total and Net Program Cost  
(in millions of dollars)

	Total Program Cost				Net Program Cost			
			\$ of	% of Total			\$ of	% of Total
	2016	2015	Change	Change	2016	2015	Change	Change
Expenses								
Instruction	\$75.0	\$71.8	\$3.2	71.1%	\$54.3	\$52.9	\$1.4	50.0%
Student and instruction support	24.4	24.1	0.3	6.7%	13.3	13.7	-0.4	-14.3%
Administration & business support	11.8	11.4	0.4	8.9%	11.6	11.3	0.3	10.7%
Operations and maintenance	15.1	15.4	-0.3	-6.7%	15.0	15.4	-0.4	-14.3%
Student transportation	3.0	2.9	0.1	2.2%	2.8	2.6	0.2	7.2%
Food service	7.5	7.3	0.2	4.5%	-0.1	0.0	-0.1	-3.6%
Other	9.7	9.1	0.6	13.3%	8.1	6.3	1.8	64.3%
	<u>\$146.5</u>	<u>\$142.0</u>	<u>\$4.5</u>	<u>100.0%</u>	<u>\$105.0</u>	<u>\$102.2</u>	<u>\$2.8</u>	<u>100.0%</u>

Table 1-3 (above) shows the total program cost and the net cost (after deductions for services and grant revenue) of the various functional categories of expenses for the years ended June 30, 2016 and 2015. The "net cost" presentation reflects the portion of total program cost that is ultimately borne by the District's taxpayers. This allows the taxpayer the opportunity to compare the cost of each function to the perceived benefits received.

This impact is better demonstrated in this presentation because it more clearly presents the effects of categorical funding. Instruction and Student and instructional support functions show significant reductions from Total Program Cost to Net Program Cost as a direct result of the special categorical funding received. This presentation also indicates that while total cost increased by \$4.5 million, net costs increased by \$2.8 million. Once again, removing the effects of GASB 68, including the increase of \$0.8 million in pension adjustments, eliminate all but \$3.7 million total increase and a \$2.0 million net increase.

## Financial Analysis of Fund Financial Statements

The District uses fund accounting to control and manage money for particular purposes (e.g. dedicated taxes and bond proceeds). These fund accounting financial statements are prepared using the modified accrual basis of accounting and allow the District to demonstrate its stewardship over, and accountability for, resources provided by taxpayers and other entities. These statements also allow the reader to obtain additional insight into the financial workings of the District and further assess the District's financial health on a current basis.

On June 30, 2016, the District governmental funds reported a combined fund balance of \$30.9 million, which is an increase of \$4.1 million from June 30, 2015 balances. Table 1-4 presents the changes in the major fund balances of the District.

	Fund Balances			
	2016	2015	\$ of Change	% of Total Change
General Fund	\$12.3	\$11.9	\$0.4	9.8%
Debt Service Fund	7.0	5.4	1.6	39.0%
Capital Projects Fund	5.5	3.9	1.6	39.0%
Other Governmental Funds	6.1	5.6	0.5	12.2%
	<u>\$30.9</u>	<u>\$26.8</u>	<u>\$4.1</u>	<u>100.0%</u>

The increase in the Debt Service Fund is a direct result of the sinking fund required for the repayment of the Qualified Zone Academy Bonds and Qualified School Construction Bonds. Information regarding the outstanding debt and the related annual debt service requirements may be found on pages 27-29 in the notes to the financial statements.

The Capital Projects Fund Balance increased as funds were transferred from the General Fund. These transfers include moving the savings in debt service payments as bonds were refinanced. This increase is temporary, so the ability to make significant facility improvements in the future will require revenue which cannot be provided using the current tax rate. The FSPS *ad valorem* tax rate is the lowest of any of Arkansas' large school districts and it is becoming more difficult to remain competitive with comparable school districts which have significantly more resources. Only by using a number of creative financing tools has FSPS been able to keep existing facilities in good repair.

### General Fund Budgetary Highlights

Arkansas Code Annotated §6-20-2202 states that each school district of the state shall prepare annually a budget of expenditures and receipts, which shall be filed with the Arkansas Department of Education (ADE) in an electronic format. Although no provision currently exists for revisions to be submitted to the ADE, over the course of the year, management reviews the District's budget, taking into consideration unexpected changes in revenue and expenditures. The District's Board approved the original budget in a legally held meeting on August 24, 2015.

A schedule showing the General Fund's original budget compared with actual operating results (on a budgetary basis) is provided in this report on page 42. While the District's budget anticipated a deficit originally, the actual results for the year show that the deficit was erased by a number of factors. This favorable outcome is reflected in two categories.

Total favorable revenue variances of \$2.7 million were due to unanticipated revenues in Contributions, Other local revenue and accelerated property tax collections. In addition to the total favorable revenue variance, there was a total favorable expenditure variance of \$3.5 million. Individually, expenditure variances were favorable in categories such as Regular programs and Support services. These favorable variances allowed the District to increase Operating transfers \$4.0 million above budget.

Overall, the District was successful in matching revenues to expenditures and maintaining the fiscal integrity of the budget by keeping the fund balance practically unchanged from the prior year.

## Capital Assets and Debt Administration

### Capital Assets

As reflected on Table 1-5, the District had \$151.9 million (net of accumulated depreciation) on June 30, 2016 invested in a broad range of capital assets, including land, buildings, furniture, buses and vehicles, computers, and other equipment. Significant additions during the year were made to Morrison Elementary School. This project was completed, but other school renovation projects were in various stages of completion throughout the District. During the current fiscal year, a net of \$3.9 million in assets were capitalized. Depreciation expense for the years ending June 30, 2016 and 2015 amounted to \$8.6 million and \$8.2 million respectively.

	2016	2015	\$ of Change	% of Total Change
Land	\$7.1	\$7.0	\$0.1	-2.8%
Land Improvements	2.8	3.0	-0.2	5.6%
Construction in Progress	3.0	8.0	-5.0	138.9%
Buildings and Improvements	124.1	121.7	2.4	-66.7%
Furniture, Fixtures and Equipment	13.6	14.4	-0.8	22.2%
Vehicles	1.3	1.4	-0.1	2.8%
	<u>\$151.9</u>	<u>\$155.5</u>	<u>-\$3.6</u>	<u>100.0%</u>

### Long-Term Debt

On June 30, 2016, the District had outstanding long-term debt of \$81.0 million compared to \$83.2 million on June 30, 2015. Two bonds were refinanced with no issuance of new long-term debt. Changes in compensated absences were minimal. The repayments to bonded and other long-term debt made during the year were \$2.2 million, representing almost all of the changes in long-term debt.

Although it has grown significantly in the last few years, the debt of Fort Smith Public Schools continues to be at a low level. FSPS debt is among the lowest of school districts in the area. The issuance of second lien bonds, Qualified Zone Academy Bonds and planned restructuring of existing debt uses a mix of financing measures to effectively keep debt low while addressing facility needs.

Additional information regarding the District's long-term debt can be found in Note 7 on pages 27-29.

## Final Financial Highlights and Analysis

The General Fund (the first column of numbers on page 16) has two primary sources of revenue. The first, local property tax, is the result of local personal property and real estate assessed values taxed at a taxpayer supported millage rate. The second, state assistance (a.k.a. foundation funding), comes from the state and is awarded to school districts by multiplying a district's student count by a legislature approved dollar amount.

These four factors – student count, foundation funding rate, assessment value and millage rate - drive the two revenue sources of the General Fund. It is this revenue that pays for the primary operations of the District. It is these four factors that are relevant to review against the backdrop of the 2015-16 financial statements.

- Not only was the current millage rate of 36.5 mills unchanged from the previous fiscal year, it is unchanged since 1987. Therefore, this revenue factor provided no new funds in the 2015-16 fiscal year.
- Assessed valuation has continued to be stagnant. A review of assessment trends reveals that the increases in total assessment for the calendar years from 2013 to 2015 were the lowest two year increase in the past two decades. Therefore, this revenue factor provided only minimal new funds in the 2015-16 fiscal year.
- It is understood that the 2015 session of the Arkansas General Assembly resulted in an increase in the adopted level of foundation funding which was insufficient to allow for the pattern of regular salary increases to be approved for 2015-16. The \$63 increase to the foundation funding rate provided less than adequate funds to keep up with the usual growth in operating costs of the district.
- The student count that is used for the calculation of foundation funding is based upon a district's previous year's third quarter average daily membership (3Q-ADM). For the 2015-16 fiscal year, the 3Q-ADM of the 2014-2015 fiscal year is the important number. This review reveals that the 3Q-ADM growth was only 32 student. Growth this small provided minimal new funds for the 2015-2016 fiscal year.

The Fort Smith Public Schools continued to reflect a percentage of students qualifying for free or reduced price meals which qualify the district for categorical funding to address the needs of economically disadvantaged students. The 2015-16 percentage of more than 72% continued funding at the second tier of the state's National School Lunch Act (NSLA) formula. These funds provide for instructional staff, technology, support personnel and other services to help provide equitable opportunities for all students.

## Economic Factors and Next Year's Budget

The Board of Education adopted the 2016-17 budget on August 22, 2016. Revenue and other resources are projected to total \$156.0 million while expenditures should total \$163.1 million as funds devoted to scheduled capital expenditures are depleted.

The 2016-17 budget includes an increase of \$250 to the base salary schedule for certified staff for the year that trickles down to other district salary schedules. This base salary increase had a budgetary impact of over \$500,000. Due to lackluster growth in the operating revenues, future salary increases should be scrutinized closely.

Specifically, the four factors of the General Fund, described above, once again had minimal growth as reflected in the approved 2016-17 budget.

- The 2016-17 millage rate remained unchanged. Therefore, this revenue factor provided no new funds in the 2016-17 fiscal year budget.
- It can be stated that assessed valuation in 2015 technically increased above the growth in 2014. This is primarily due to the fact that the percentage growth in assessed valuation in 2014 was the lowest increased in 35 years. Sadly, the growth in 2015 was the second lowest percentage growth in 35 years. As in the previous year, this revenue factor provided only minimal new funds in the 2016-2017 fiscal year budget.
- The 2015 session of the Arkansas General Assembly locked foundation funding for two fiscal years. The 2015-16 rate increase of \$63 bested the 2016-17 rate increase of \$62 per student by a mere dollar. Once again, the \$62 increase to the foundation funding rate provided less than adequate funds to keep up with the usual growth in operating costs of the district.
- For the 2016-17 fiscal year, the 3Q-ADM of the 2015-16 fiscal year is the important number for foundation funding in the 2016-17 fiscal year budget. This review reveals that there was no 3Q-ADM growth from the previous year. Therefore, no new funds were generated from student growth.

Subsequent to the 2016-17 fiscal year budget adoption, there has been no evidence to believe meaningful revenue growth will be seen in the near future without school board action. An October 3, 2016 student count documented a growth of 30 students over the student count of October 1, 2015, but it is uncertain if that fact will produce an increase in the 2016-17 3Q-ADM. Assessed values have not yet been disclosed by the county officials, but there is no indication that dramatic increases are on the horizon. Conversations with state legislators indicate a foundation funding rate increase of only 1.01% is expected for each of the next two years. Of the four factors, only the millage rate remains. The prospect of changing the millage rate may bring about the only real growth in revenue in the immediate future.

Management's discussion of the General Fund is provided as a result of speculation that legislative initiatives that may cap the fund balance of the General Fund or the legal fund balance of all Arkansas districts. The 2015-16 financial statements support the disciplined, purposeful financial management of the district that legislators purport to support. These legislative actions may drive the General Fund balance below prudent thresholds for the sake of legislative oversight.

## **Contacting the District's Financial Management Official**

While this Management Discussion and Analysis is designed to provide a general overview of the financial condition and operations of the District, citizen groups, taxpayers, parents, students, investors or creditors may want further details. To obtain such details, please contact Charles Warren, Chief Financial Officer or Dr. Doug Brubaker, Superintendent of Schools at the Fort Smith Public Schools, 3205 Jenny Lind, Fort Smith, AR 72901 or by calling (479) 785-2501 during regular office hours or via e-mail at [cwarren@fortsmithschools.org](mailto:cwarren@fortsmithschools.org) or [dbrubaker@fortsmithschools.org](mailto:dbrubaker@fortsmithschools.org).

***FINANCIAL STATEMENTS***

# FORT SMITH SCHOOL DISTRICT #100

## STATEMENT OF NET POSITION

AS OF JUNE 30, 2016 AND 2015

Assets	Governmental Activities	
	2016	2015
<b>Current Assets:</b>		
Cash and temporary investments	\$ 27,666,422	\$ 20,812,834
Receivables:		
Intergovernmental	3,931,458	6,572,010
Other	2,191	1,165
Inventories, at cost	594,663	804,359
Prepaid items	925,051	880,031
<b>Total Current Assets</b>	<b>33,119,785</b>	<b>29,070,399</b>
<b>Noncurrent Assets:</b>		
<b>Capital Assets:</b>		
Land	7,077,802	6,955,592
Land improvements	5,435,505	5,435,505
Building and improvements	193,775,620	185,583,692
Furniture, fixtures, and equipment	38,888,496	38,452,538
Vehicles	7,318,829	7,073,329
Construction in process	2,979,066	8,035,102
Less accumulated depreciation	(103,577,738)	(96,040,639)
<b>Capital Assets-Net</b>	<b>151,897,580</b>	<b>155,495,119</b>
<b>Total Assets</b>	<b>185,017,365</b>	<b>184,565,518</b>
<b>Deferred Outflows</b>		
Deferred loss on refunding, net of amortization	323,129	296,527
Deferred outflows related to pension	32,372,062	12,813,861
<b>Total Deferred Outflows</b>	<b>32,695,191</b>	<b>13,110,388</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	420,446	474,059
Payroll withholdings	1,743,247	1,752,614
Due to participants/vendors	-	53,173
Other deferred revenue	-	2,065
Current portion of long-term debt	4,555,006	4,297,746
Accrued interest	565,245	694,314
Compensated absences	300,000	190,000
<b>Total Current Liabilities</b>	<b>7,583,944</b>	<b>7,463,971</b>
<b>Noncurrent liabilities:</b>		
Bonds and notes payable, net of unamortized bond discounts	70,967,200	73,373,613
Compensated absences	4,588,645	4,592,997
Net pension liability	102,159,598	80,111,683
<b>Total Noncurrent Liabilities</b>	<b>177,715,443</b>	<b>158,078,293</b>
<b>Total Liabilities</b>	<b>185,299,387</b>	<b>165,542,264</b>
<b>Deferred Inflows</b>		
Deferred inflows related to pension	28,629,348	37,025,982
<b>Total Deferred Inflows</b>	<b>28,629,348</b>	<b>37,025,982</b>
<b>Net Position</b>		
Net investment in capital assets	81,766,707	80,382,979
Restricted for:		
Encumbrances	946,121	431,523
Debt service	6,478,964	4,704,528
Unrestricted:		
Designated for insurance deductibles	200,000	200,000
Designated for unemployment benefits	500,000	500,000
Undesignated	(86,107,971)	(91,111,370)
<b>Total Net Position - Deficit</b>	<b>\$ 3,783,821</b>	<b>\$ (4,892,340)</b>

See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR 2015

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES 2016	2015
<b>Governmental Activities</b>					
Instruction:					
Regular programs	\$ 50,304,169	\$ 23,971	\$ 6,247,611	\$ (44,032,587)	\$ (42,470,804)
Special education	9,963,521	-	4,515,932	(5,447,589)	(5,569,580)
Vocational education	3,019,062	-	250,111	(2,768,951)	(2,677,270)
Adult education	1,516,086	-	1,390,605	(125,481)	(154,043)
Compensatory education	6,797,833	-	5,881,519	(916,314)	(908,114)
Other instructional programs	3,403,186	86,565	2,336,155	(980,466)	(1,166,484)
Support services:					
Student	9,682,430	-	3,187,161	(6,495,269)	(6,326,203)
Instructional	14,680,250	-	7,821,487	(6,858,763)	(7,352,594)
General administration	1,067,131	-	3,712	(1,063,419)	(976,984)
School administration	7,946,459	-	112,879	(7,833,580)	(7,835,312)
Business	2,759,397	-	78,953	(2,680,444)	(2,496,437)
Operation and maintenance of plant	15,080,865	-	81,992	(14,998,873)	(15,365,932)
Student transportation	2,987,988	80,326	103,779	(2,803,883)	(2,650,462)
Central	2,874	-	122,694	119,820	111,675
Other	142,428	-	-	(142,428)	(169,998)
Community services	908,625	213,635	906,131	211,141	276,111
Food service	7,514,587	961,728	6,662,177	109,318	48,869
Facilities acquisition and construction	-	-	212,618	212,618	1,607,177
Interest and fees on long-term debt	2,518,707	-	39,905	(2,478,802)	(2,596,491)
Indirect cost	118,479	-	118,479	-	-
Depreciation - unallocated	6,058,412	-	-	(6,058,412)	(5,553,853)
<b>Total Governmental Activities</b>	<b>146,472,489</b>	<b>1,366,225</b>	<b>40,073,900</b>	<b>(105,032,364)</b>	<b>(102,226,729)</b>
<b>Total Primary Government</b>	<b>\$ 146,472,489</b>	<b>\$ 1,366,225</b>	<b>\$ 40,073,900</b>	<b>(105,032,364)</b>	<b>(102,226,729)</b>
<b>General Revenues:</b>					
Property taxes levied for:					
General purpose				53,645,391	51,441,388
Grants and contributions not restricted to specific programs				58,632,224	57,410,337
Investment earnings				1,396,547	1,175,566
Insurance recoveries				107,008	46,995
Miscellaneous				12,582	16,634
Loss on asset disposal				(85,227)	(27,155)
<b>Transfers</b>				-	-
<b>Total General Revenues and Transfers</b>				<b>113,708,525</b>	<b>110,063,765</b>
<b>Change in Net Position</b>				<b>8,676,161</b>	<b>7,837,036</b>
Net position at beginning of year as previously stated				(4,892,340)	98,338,931
GASB 68 implementation adjustment				-	(111,068,307)
Net position at beginning of year as restated				(4,892,340)	(12,729,376)
<b>Net Position at End of Year</b>				<b>\$ 3,783,821</b>	<b>\$ (4,892,340)</b>

See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## BALANCE SHEET - GOVERNMENTAL FUNDS

AS OF JUNE 30, 2016

	General Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and temporary investments	\$ 11,099,959	\$ 7,044,209	\$ 5,660,021	\$ 3,862,233	\$ 27,666,422
Receivables:					
Intergovernmental	1,584,984	-	69,050	2,277,424	3,931,458
Other	2,155	-	-	36	2,191
Inventories, at cost	502,143	-	-	92,520	594,663
Prepaid items	925,051	-	-	-	925,051
<b>Total Assets</b>	<b>\$ 14,114,292</b>	<b>\$ 7,044,209</b>	<b>\$ 5,729,071</b>	<b>\$ 6,232,213</b>	<b>\$ 33,119,785</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 65,998	\$ -	\$ 268,688	\$ 85,760	\$ 420,446
Payroll withholdings	1,743,247	-	-	-	1,743,247
<b>Total Liabilities</b>	<b>1,809,245</b>	<b>-</b>	<b>268,688</b>	<b>85,760</b>	<b>2,163,693</b>
<b>Fund Balances</b>					
Nonspendable	1,427,194	-	-	92,520	1,519,714
Spendable:					
Restricted	-	7,044,209	5,460,383	-	12,504,592
Assigned	1,178,341	-	-	6,053,933	7,232,274
Unassigned	9,699,512	-	-	-	9,699,512
<b>Total Fund Balances</b>	<b>12,305,047</b>	<b>7,044,209</b>	<b>5,460,383</b>	<b>6,146,453</b>	<b>30,956,092</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,114,292</b>	<b>\$ 7,044,209</b>	<b>\$ 5,729,071</b>	<b>\$ 6,232,213</b>	<b>\$ 33,119,785</b>

See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

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AS OF JUNE 30, 2016

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**Total Fund Balances - Governmental Funds** \$ 30,956,092

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$255,475,318 and the accumulated depreciation is \$103,577,738. 151,897,580

Deferred outflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds. 32,372,062

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable and QZABs	\$ (76,100,088)	
Accrued interest on bonds and QZABs	(565,245)	
Unamortized bond discounts	577,882	
Unamortized deferred loss on refinance of debt	323,129	
Compensated absences	(4,888,645)	
Net pension liability	(102,159,598)	(182,812,565)

Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds. (28,629,348)

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**Total Net Position - Governmental Activities** \$ 3,783,821

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See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 53,645,391	\$ -	\$ -	\$ -	53,645,391
Tuition and services to other LEA	4,408	-	-	-	4,408
Meal sales	-	-	-	961,728	961,728
Interest	100,993	1,288,795	4,640	2,119	1,396,547
Contributions	189,509	-	-	-	189,509
Insurance recoveries	107,008	-	-	-	107,008
Other local revenues	558,068	-	-	283,063	841,131
State assistance	58,278,293	-	212,618	18,146,358	76,637,269
Unrestricted federal aid	12,582	-	-	-	12,582
Restricted federal aid	-	-	-	21,319,825	21,319,825
<b>Total Revenues</b>	<b>112,896,252</b>	<b>1,288,795</b>	<b>217,258</b>	<b>40,713,093</b>	<b>155,115,398</b>
<b>Expenditures</b>					
Current:					
Regular programs	48,254,149	-	-	5,333,148	53,587,297
Special education	7,178,912	-	-	3,321,064	10,499,976
Vocational education	2,871,314	-	-	327,893	3,199,207
Adult education	-	-	-	1,515,604	1,515,604
Compensatory education	584,303	-	-	6,074,953	6,659,256
Other instructional programs	488,792	-	-	2,877,781	3,366,573
Support services	42,072,648	-	-	11,787,999	53,860,647
Food service	-	-	-	7,441,185	7,441,185
Community services	144,828	-	15,811	744,335	904,974
Capital outlay	1,226,183	-	3,201,127	662,234	5,089,544
Debt service:					
Principal	-	2,515,437	-	-	2,515,437
Interest	-	2,486,625	-	-	2,486,625
Paying agent's fees	-	57,062	-	-	57,062
<b>Total Expenditures</b>	<b>102,821,129</b>	<b>5,059,124</b>	<b>3,216,938</b>	<b>40,086,196</b>	<b>151,183,387</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>10,075,123</b>	<b>(3,770,329)</b>	<b>(2,999,680)</b>	<b>626,897</b>	<b>3,932,011</b>
<b>Other Financing Sources (Uses)</b>					
Indirect cost reimbursement	118,479	-	-	(118,479)	-
Proceeds from issuance of debt	-	-	11,300,000	-	11,300,000
Refunding of bonds outstanding	-	-	(11,060,000)	-	(11,060,000)
Bond issuance costs	-	(35,208)	-	-	(35,208)
Discount on sale of bonds	-	(90,249)	-	-	(90,249)
Premium on sale of bonds	-	121,050	-	-	121,050
Operating transfers in	-	5,420,103	4,305,030	84,882	9,810,015
Operating transfers out	(9,810,015)	-	-	-	(9,810,015)
<b>Total Other Financing Sources (Uses)</b>	<b>(9,691,536)</b>	<b>5,415,696</b>	<b>4,545,030</b>	<b>(33,597)</b>	<b>235,593</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>					
Fund Balance at Beginning of Year	11,921,460	5,398,842	3,915,033	5,553,153	26,788,488
<b>Fund Balance at End of Year</b>	<b>\$ 12,305,047</b>	<b>\$ 7,044,209</b>	<b>\$ 5,460,383</b>	<b>\$ 6,146,453</b>	<b>\$ 30,956,092</b>

See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 4,167,604</b>	
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Capital outlays are reported in governmental funds expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$8,601,856) exceeds capital outlays (\$5,089,544) in the period.	(3,512,312)	
In the statement of activities, total interest expense is adjusted for the change between current year and prior year accrued interest which is shown on the statement of net assets. The current year adjustment is an decrease to interest expense.	129,068	
Because more compensated absences were accrued during the year than were paid, a net increase in other long-term liabilities occurred. This is the amount by which compensated absences earned were more than compensated absences paid.	(105,648)	
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	13,575,437	
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities.	(11,300,000)	
Bond premiums, discounts and deferred loss on refunding costs are reported in governmental funds expenditures. However, in the statement of activities, the cost of those are allocated over the life of the bonds and is included as a component of interest expense. This is the amount by which amortization of bond discount costs and deferred loss on refunding (\$68,880) exceeds current year net bond premium, discounts and deferred loss on refunding costs (\$30,801).	(99,681)	
The statement of activities reports a loss on disposal of assets which was due to writing-off the net book value of obsolete assets of the District. The loss on disposal is calculated as follows:		
Cost of assets disposed	(1,149,984)	
Accumulated depreciation of assets disposed	<u>1,064,757</u>	(85,227)
Governmental funds report agency pension contributions as expenditures. Some items reported in the Statement of Activities represent a change in net position that applies to future periods and includes the difference between expected and actual experience, changes in assumptions, expected earnings on plan investment, and employer contributions that are not recognized as an outflow or inflow until a future period and, therefore, are not reported as expenditures in governmental funds.		
These activities consist of:		
District pension contributions	12,987,402	
Cost of benefits earned net of employee contributions	<u>(7,080,482)</u>	5,906,920
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 8,676,161</b>	

See accompanying notes and independent auditor's report.

**FORT SMITH SCHOOL DISTRICT #100**

**STATEMENT OF FIDUCIARY NET POSITION**

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**AS OF JUNE 30, 2016**

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	<b>STUDENT ACTIVITY FUND</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 1,249,268
<b>Total Assets</b>	<b>\$ 1,249,268</b>
<b>Liabilities</b>	
Due to student groups	\$ 1,249,268
<b>Total Liabilities</b>	<b>\$ 1,249,268</b>

See accompanying notes and independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies

#### a. Financial Reporting Entity

The Fort Smith School District #100 (the District) is a political subdivision of the Arkansas Department of Education, governed by an elected seven-member school board. The statements reflect all funds and accounts directly under the control of the District. Using the criteria of financial accountability, there are no component units that should be included in the District's reporting entity.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the District are discussed below.

#### b. Basis of Presentation, Basis of Accounting, and Measurement Focus

The District's basic financial statements consist of government-wide statements, including a statement of net position and 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 position and the statement of activities show information about the overall financial position and activities of the school district with the exception of the the exception of the student activity fund.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the District are generally financed through property taxes, state equalization funding, and federal and state grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows takes place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The statement of activities present a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges by a given function or activity. In addition, program revenues include grant 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.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies (continued)

#### **Basis of Presentation, Basis of Accounting, and Measurement Focus (continued)**

**Fund Financial Statements** - These statements provide information about the District's funds, including a separate statement for the District's fiduciary fund (the student activity fund). The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column. Any remaining would be aggregated and reported in a single column as other governmental funds.

The District has the following fund types:

Governmental funds are used to account for the District's general governmental activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, state assistance and federal aid are susceptible to accrual. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time. Expenditure grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

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 special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The debt service fund accounts for the servicing of general long-term debt not being financed by nonexpendable trust funds.

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

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies (continued)

#### **Basis of Presentation, Basis of Accounting, and Measurement Focus (continued)**

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others.

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. Assets, Liabilities and Equity**

##### **Deposits and investments**

The District's cash and temporary investments are considered to be cash on hand, demand deposits, certificates of deposit and U.S. Treasury Bills. Temporary investments are stated at cost which approximates market value.

Arkansas State Statutes also authorize the District to invest in general obligation bonds of the United States, in bonds, notes, debentures, or other obligations issued by an agency of the United States government and in general obligation bonds of the State of Arkansas.

The Statutes require that deposits of school funds be in banks and secured in an amount equal to the deposits. The security must be provided by general obligation bonds of the United States, bonds, notes, debentures, or other obligations issued by an agency of the United States Government, bonds of the State of Arkansas or by bonds of a political subdivision thereof which has never defaulted on any of its obligations 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.

##### **Receivables and payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payable" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies (continued)

#### Assets, Liabilities and Equity (continued)

##### Inventories

Inventories of supplies on the balance sheet are stated at average cost, while inventories of food commodities are recorded at market values. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Arkansas Department of Human Services and recorded as inventory and donated commodities when received. Inventories also include plant maintenance, athletic, fuel, and operation supplies as well as instructional supplies.

##### Fixed assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Land	N/A
Land improvements	20 years
Building and improvements	20-50 years
Furniture, fixtures, and equipment	5-20 years
Vehicles	8 years

##### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies (continued)

#### Assets, Liabilities and Equity (continued)

##### Comparative information / Reclassifications

Comparative information for the 2015 fiscal year has been presented on the government-wide financial statements. Certain 2015 amounts have been reclassified in order to conform with the 2016 financial statement presentation. This change, due to reclassification of some deferred inflows and outflows related to pensions, resulted in an increase in deferred outflows related to pension of \$12,802,541, an increase in net pension liability of \$12,778,714, an increase in deferred inflows relating to pension of \$20,122,156, an increase to the GASB 68 net position implementation adjustment of \$30,956,624 and a decrease in pension expense of \$23,637,009.

##### Compensated absences

Employees on twelve month contracts are eligible for vacation. During years one through nine of service an employee earns two weeks of vacation each year. After ten years of service, an employee earns three weeks of vacation each year. After twenty years of service, eighteen days of vacation are earned. Vacation time accrues proportionately between July 1 and June 30. This vacation may be taken beginning June 1 of the year earned and should be taken not later than June 30 of the following fiscal year. Unused vacation days may be carried over to a new fiscal year, but cannot exceed twenty days. Effective July 1, 2006, the maximum accumulation of vacation days including the final year of service with the District, will be thirty-five days.

The District provides substantially all teachers and other employees one day of paid sick leave for each month contracted or employed. Any accumulated unused sick leave is carried over to the next school without limitation. If after ten or more years of service, an employee leaves the District, that employee will receive payment of a maximum of 120 days of accumulated unused sick leave. The rate of payment is the current base rate of a substitute teacher. If after five years or more of service, a teacher retires from the District, that employee will receive payment of a maximum of 120 days of accumulated unused sick leave at a rate of payment equal to the current base rate of a substitute. However, after 10 years of employment, upon separation of employment from the District, including retirement, specific categories of employees are limited to 1/2 of the accumulated unused sick leave of 120 days for an effective maximum payment of 60 days at a rate of payment of 60 days at a rate equal to the current base rate of a substitute.

The District provides substantially all teachers and other employees two days of paid leave for personal business per year. Any accumulated unused personal business leave is carried over to the next school to a maximum of seven days. Any days in excess of seven days are rolled over into the employee's accumulated sick leave. If after ten or more years of service, an employee leaves the District, that employee will receive payment of a maximum of seven days of accumulated unused personal business leave at the current base rate of a substitute.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 1. Summary of Significant Accounting Policies (continued)

#### Assets, Liabilities and Equity (continued)

##### Fund equity

Reservations of fund balance represent amounts that are not appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Under Arkansas Act 376 of 1977, the District has elected to reimburse the State's Employment Security Division for unemployment benefits the state might pay for District employees. The District has designated a portion of the General Fund's fund balance, in the amount of \$500,000, to meet any possible future liability for unemployment benefit claims.

The District has also designated a portion of the General Fund's fund balance in the amount of \$200,000, for future liability due to increases in insurance deductibles.

### 2. 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 15 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 2015 assessed valuation upon which taxes will be levied in 2016 is \$1,483,530,928. The tax levy by fund is as follows:

General Fund	\$ 37,088,273
Debt Service	17,060,606
Total	<u>\$ 54,148,879</u>

Property taxes collected by the Sebastian County Collector in June of 2016, but not released to the District until July of 2016 are required to be accrued and recognized as revenue as of June 30, 2016. This amount accrued totaled \$1,584,924.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 3. Stewardship, Compliance and Accountability

#### Budgetary Information

In accordance with Arkansas law, the District adopts an annual budget by September 30 of each fiscal year for the General, Special Revenue, Capital Projects and Debt Service Funds. The General and Special Revenue Funds budgets are prepared on the basis prescribed by State Statute. The Capital Projects and Debt Service Funds budgets are prepared on the basis of generally accepted accounting principles. Expenditures of each fund may not legally exceed available resources of that fund.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### 4. Deposits and Temporary Investments

The District maintains its operating bank accounts in two area banks. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at these institutions. In addition, deposits are collateralized by the bank through the pledging of securities. At June 30, 2016, the District all of the District's deposits were insured or collateralized.

### 5. Inventories

Components of the June 30, 2016 inventories are as follows:

Maintenance supplies	\$	102,227
Instructional supplies		386,051
Food and supplies		92,520
Fuel		13,865
Total	\$	<u>594,663</u>

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 6. Changes in Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	\$ 6,955,592	\$ 122,210	\$ -	\$ 7,077,802
Construction in progress	8,035,102	2,979,066	8,035,102	2,979,066
Total capital assets not being depreciated	<u>14,990,694</u>	<u>3,101,276</u>	<u>8,035,102</u>	<u>10,056,868</u>
Capital assets, being depreciated				
Land improvements	5,435,505	-	-	5,435,505
Buildings and improvements	185,583,692	8,191,928	-	193,775,620
Furniture, fixtures and equipment	38,452,538	1,572,614	1,136,656	38,888,496
Vehicles	7,073,329	258,828	13,328	7,318,829
Total capital assets, being depreciated	<u>236,545,064</u>	<u>10,023,370</u>	<u>1,149,984</u>	<u>245,418,450</u>
Less accumulated depreciation:				
Land improvements	2,406,268	195,271	-	2,601,539
Buildings and improvements	63,890,499	5,739,958	-	69,630,457
Furniture, fixtures and equipment	24,049,682	2,285,810	1,051,429	25,284,063
Vehicles	5,694,190	380,817	13,328	6,061,679
Total accumulated depreciation	<u>96,040,639</u>	<u>8,601,856</u>	<u>1,064,757</u>	<u>103,577,738</u>
Total capital assets, being depreciated, net	<u>140,504,425</u>	<u>1,421,514</u>	<u>85,227</u>	<u>141,840,712</u>
Governmental activities, capital assets, net	<u>\$ 155,495,119</u>	<u>\$ 4,522,790</u>	<u>\$ 8,120,329</u>	<u>\$ 151,897,580</u>

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 6. Changes in Capital Assets (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Instruction:	
Regular programs	\$ 416,800
Special education	4,956
Vocational education	54,148
Adult education	482
Compensatory education	200,664
Other instructional programs	36,613
Support services:	
Student	19,678
Instructional	303,634
General administration	4,291
School administration	27,091
Business	65,700
Operation and maintenance of plant	1,003,356
Student transportation	326,104
Central	2,874
Food service	73,402
Community services	3,651
Depreciation - unallocated	6,058,412
Total depreciation expense	\$ <u>8,601,856</u>

### 7. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction, and operation of major capital facilities 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 requiring bonds to be called in inverse numerical order for redemption prior to maturity.

On July 1, 2015 the District issued general obligation refunding bonds in the principal amount of \$4,890,000 (new debt). Proceeds from the issue were used to defease the \$4,720,000 outstanding balance bonds (old debt) dated December 1, 2009. Cash flow savings as a result of this bond issue and corresponding debt defeasement is \$335,685.

On April 1, 2016 the District issued general obligation refunding bonds in the principal amount of \$6,410,000 (new debt). Proceeds from the issue were used to defease the \$6,340,000 outstanding balance bonds (old debt) dated November 1, 2010. Cash flow savings as a result of this bond issue and corresponding debt defeasement is \$610,329.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 7. Long-Term Debt (continued)

The District is required with the 2005, 2011, and 2012 QZAB issues and all of the QSCB issues to establish a sinking fund that will be funded on the anniversary date of the issues as prescribed in the agreements.

The following is a summary of the District's long-term debt activity for the year ended June 30, 2016:

	Balance July 1, 2015	Debt Additions	Debt Retirements	Balance June 30, 2016
<b>General Obligation Bonds:</b>				
Bond issue dated December 1, 2009	\$ 4,720,000	\$ -	\$ 4,720,000	\$ -
Bond issue dated October 1, 2010	2,320,000	-	235,000	2,085,000
Bond issue dated November 1, 2010	6,685,000	-	6,685,000	-
Bond issue dated June 1, 2011	5,485,000	-	555,000	4,930,000
Bond issue dated May 1, 2012	4,325,000	-	445,000	3,880,000
Bond issue dated December 1, 2012	3,755,000	-	195,000	3,560,000
Bond issue dated September 1, 2013	9,140,000	-	-	9,140,000
Bond issue dated January 1, 2014	8,975,000	-	285,000	8,690,000
Bond issue dated July 7, 2015	-	4,890,000	250,000	4,640,000
Bond issue dated April 7, 2016	-	6,410,000	-	6,410,000
<b>Total General Obligation Bonds</b>	<b>45,405,000</b>	<b>11,300,000</b>	<b>13,370,000</b>	<b>43,335,000</b>
<b>Other Long-term Debt</b>				
Qualified Zone Academy Bonds September 1, 2005	627,342	-	-	627,342
Qualified Zone Academy Bonds dated October 2, 2007	1,708,183	-	205,437	1,502,746
Qualified Zone Academy Bonds dated October 6, 2011	3,885,000	-	-	3,885,000
Qualified School Construction Bonds dated November 4, 2009	5,125,000	-	-	5,125,000
Qualified School Construction Bonds dated December 1, 2010	7,940,000	-	-	7,940,000
Qualified School Construction Bonds dated October 6, 2011	1,115,000	-	-	1,115,000
Qualified Zone Academy Bonds dated November 5, 2012	12,570,000	-	-	12,570,000
<b>Total Other Long-term Debt</b>	<b>32,970,525</b>	<b>-</b>	<b>205,437</b>	<b>32,765,088</b>
<b>Other Long-term liabilities</b>				
Compensated absences	4,782,997	417,952	312,304	4,888,645
<b>Total</b>	<b>\$ 83,158,522</b>	<b>\$ 11,717,952</b>	<b>\$ 13,887,741</b>	<b>\$ 80,988,733</b>

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 7. Long-Term Debt (continued)

Annual debt service requirements to maturity are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 6,921,650	\$ 4,555,006	\$ 2,366,644
2018	7,150,001	4,847,290	2,302,711
2019	7,160,511	4,909,600	2,250,911
2020	7,168,693	4,976,934	2,191,759
2021	7,649,011	5,522,635	2,126,376
2022-2026	32,762,862	23,220,567	9,542,295
2027-2031	22,751,264	15,925,882	6,825,382
2032-2036	12,734,894	9,407,174	3,327,720
2037-2039	2,908,275	2,735,000	173,275
	<u>\$ 107,207,161</u>	<u>\$ 76,100,088</u>	<u>\$ 31,107,073</u>

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>Range of Payment Dues</u>	<u>Range of Annual Maturities (\$)</u>
10/1/2010	3,255,000	1.00/3.00	2-2011/2-2024	45,000/290,000
6/1/2011	6,690,000	2.00/2.75	8-2011/2-2024	185,000/675,000
5/1/2012	5,125,000	1.50/2.00	8-2012/8-2023	68,794/530,650
12/1/2012	4,120,000	.60/2.70	2-2014/2-2032	170,000/265,000
9/1/2013	9,140,000	1.45/4.15	12-2016/12-2038	185,000/560,000
1/1/2014	9,230,000	1.00/4.20	2-2015/2-2038	255,000/570,000
QZAB 9/1/2005	627,342	0	9/1/2021	627,342
QZAB 10/2/2007	3,085,000	1.10	10-2008/10-2022	190,292/221,787
QZAB 10/6/2011	3,885,000	4.30	4-2012/10-2029	215,834
QSCB 11/4/2009	5,125,000	2.17	11-2010/11-2025	320,313
QSCB 12/1/2010	7,940,000	5.125	12-2011/12-2029	417,895
QSCB 10/6/2011	1,115,000	4.375	4-2012/10-2029	61,945
QZAB 11/5/2012	12,570,000	3.90	11-2016/11-2035	12,570,000
7/1/2015	4,890,000	1.00/1.90	2-2016/2-2024	250,000/635,000
4/1/2016	6,410,000	2.00/2.25	12-2016/6-2030	300,000/525,000

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 8. Bond Premium/Discount Costs and Deferred Loss on Refunding

Bond discount costs incurred in connection with the issuance of the 2009, 2010, 2011, 2012, 2013, 2014, and 2015 Series general obligation bonds are being amortized over 12 to 20 years. Bond discount costs incurred in connection with the issuance of the 2007, 2011 and 2012 QZABs are being amortized over 15, 18 and 22 years, respectively. Bond discounts incurred with the 2009, 2010 and 2011 QSCBs are being amortized over 15, 20 and 18 years, respectively. The reoffering premium incurred in connection with the 2016 bond issuance is being amortized over 15 years. Amortization of the bond discounts totaled \$42,205 and is included in interest and fees on long-term debt in the statement of activities. The unamortized portion is netted with total long-term debt.

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The balance of \$323,129 is shown as deferred outflows on the statement of net assets and is amortized over the life of the new debt which ranges from 9 to 20 years. Amortization of the deferred loss totaled \$26,675 and is included in interest and fees on long-term debt in the statement of activities.

### 9. Risk Management

The District is exposed to various risks of loss from theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District has joined together with other school districts to form the Arkansas School Board Association Self-Insurance program, 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 workmen's compensation 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.

### 10. Employee Retirement Systems and Plans

#### **Implementation of GASB 68 - Restatement of Prior Year Ending Net Position**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, which became effective with fiscal year ending June 30, 2015. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the government-wide statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. Accordingly, the effect of this change was a net reduction of

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

unrestricted, undesignated net position of \$111,068,307 as of June 30, 2015. This was comprised of \$80,111,683 net pension liability plus \$37,025,982 deferred inflows of resources offset by deferred outflows of resources of \$12,813,161.

#### **Arkansas Teacher Retirement System ("System")**

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 information. The report may be obtained by writing to ATRS, Three Capitol Mall, Little Rock, AR 72201 or by calling (501) 682-1517.

The District contributes 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, 2016 were \$12,969,907 and contributions for the year ended June 30, 2015 were \$12,778,714.

#### **Benefit Provisions**

Members are eligible for full retirement benefits at age 60 with five or more years of credited service or at any age with 28 or more years of credited service. Members with 25 years of credited service who have not attained age 60 may receive an annuity reduced by 5/12 of 1% multiplied by the number of months by which the early retirement precedes the earlier of (1) completion of 28 years of credited service or (2) attainment of age 60. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average salary (effective April 1, 1998, computed using highest three years salary) and (2) the number of years of service.

#### **Contributions**

ATRS's funding policy provides for periodic employer contributions at statutorily established rates based on annual actuarial valuations. The employer contribution rate was 14% for the fiscal years ending June 30, 2016 and 2015. Contributory members are required to contribute 6% of gross wages to ATRS. Employee contributions are refundable if ARTRS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with ATRS for a period of one or more years earn interest credits, which are included in the refund.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

#### ATRS Fiduciary Net Position

Detailed information for about ATRS's fiduciary net position is available in the separately issued ATRS Financial Report available at <http://www.artrs.gov/publications>.

#### Measurement Date

The collective Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

#### Actuarial Assumptions

The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule of contributions:

Actuarial cost method	Entry age normal
Amortization method	level percentage of payroll, closed
Amortization period	30 years
Asset valuation method	4-year smoothed market for funding purposes; 20% corridor
Wage inflation	3.25%
Salary Increases	3.25% to 9.10%, including inflation
Investment rate of return	8%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2011 valuation pursuant to an experience study for the period July 1, 2005 - June 30, 2010.
Mortality	RP-2000 Mortality Table for males and females projected 25 years with scale AA (95% for men and 87% for women).

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

#### Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant and actuary.

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

<u>Asset Allocation</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	50%	4.7%
Fixed Income	20%	0.9%
Alternatives	5%	4.4%
Real Assets	15%	4.3%
Private Equity	10%	6.5%
Cash Equivalents	0%	0.1%
	<u>100%</u>	

#### Discount Rate

Single Discount Rate – A single discount rate of 8.0% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 8.0%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 8.00%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher:

<u>Sensitivity of the Net Pension Liability to the Single Discount Rate</u>			
	1% Decrease 7%	Current Rate 8%	1% Increase 9%
Net Pension Liability	\$ 169,419,394	\$ 102,014,160	\$ 45,508,478

#### **Arkansas Public Employees Retirement System ("System")**

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-of-living adjustments to plan members. The System issues 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.

The District contributes 4% of covered employees' salaries to the plan. The District's contributions for the years ended June 30, 2016 and 2015 were \$17,494 and \$20,680, respectively.

#### **Benefits Provided**

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of living adjustment of 3% of the current benefit is added each year.

#### **Contributions**

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 4.00% of compensation for the fiscal years ended June 30, 2016 and 2015. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

#### **APERS Fiduciary Net Position**

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

#### **Measurement Date**

The collective Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

#### Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (13 years for District Judges New Plan/Paid Off Old Plan and 20 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25% to 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

#### Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2015 to 2024 were based upon capital market assumptions provided by the plan's investment consultant(s). For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	16%	0.83%
	<u>100%</u>	
Total Real Rate of Return		5.25%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		<u>0.10%</u>
Net Expected Return		<u>7.65%</u>

#### Single Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher:

	<u>Sensitivity of the Net Pension Liability to the Single Discount Rate</u>		
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ <u>239,574</u>	\$ 145,438	\$ <u>67,150</u>

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

#### Deferred Outflows/Inflows of Resources

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience		
ATRS	\$ 3,187,548	\$ 2,090,213
APERS	-	7,216
Changes in assumptions		
ATRS	-	-
APERS	21,464	-
Net difference between projected and actual earnings on pension plan investments		
ATRS	13,486,802	26,512,228
APERS	-	9,535
Changes in proportion and differences between employer contributions and proportionate share of contributions		
ATRS	2,688,846	-
APERS	-	10,156
District contributions subsequent to the measurement date		
ATRS	12,969,907	-
APERS	17,495	-
<b>Total</b>	<b>\$ 32,372,062</b>	<b>\$ 28,629,348</b>

\$12,987,402 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase or (decrease) to pension expense as follows:

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 10. Employee Retirement Systems and Plans (continued)

Year ended June 30,	Net Increase/ (Decrease) in Pension
2017	\$ (4,779,168)
2018	(4,779,168)
2019	(4,779,168)
2020	4,240,913
2021	851,903
	\$ (9,244,688)

### 11. Fund Balance Reporting

The District follows GASB 54 as part of its 2014-2015 & 2015-2016 fiscal year reporting. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District has inventories and prepaid items that are considered nonspendable. The District does not have any nonspendable funds related to endowments.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed: fund balances that contain self-imposed constraints of the District from its highest level of decision making authority.

Assigned: fund balances that contain self-imposed constraints of the District to be used for a particular purpose.

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

Nonspendable: The District has inventories totaling \$594,663 and prepaid items totaling \$925,051 that are classified as nonspendable.

# FORT SMITH SCHOOL DISTRICT #100

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

### 11. Fund Balance Reporting (continued)

The District has classified its fund balances with the following hierarchy:

Spendable: The District has classified the spendable fund balances as Restricted, Assigned and Unassigned and considered each to have been spent when expenditures are incurred. The District currently has no funds classified as Committed.

Restricted for State Categorical Programs, Food Service, Debt Service, and Capital Projects:

Federal Laws, Arkansas Statutes and local ordinances require that certain revenues be specifically designed for the purposes of state categorical programs, debt service, and capital projects. The funds have been included in restricted category of fund balance. The restricted fund balances totaled \$12,504,592 and represented \$7,044,209 in debt service and \$5,460,383 in capital projects. The restricted balance in capital projects includes \$3,287,104 for outstanding encumbrances.

Assigned for School Operations and Capital Projects:

The School Board has set aside certain spendable fund balance for school operations, insurance deductibles, and unemployment benefits. At year end, the assigned fund balance is \$7,232,274 of which \$6,532,274 is for school operations, \$200,000 is for insurance deductibles, and \$500,000 is for unemployment benefits. The assigned fund balance for school operations includes \$946,121 for outstanding encumbrances.

Unassigned:

The unassigned fund balance for the General Fund is \$9,699,512.

Description	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service	Capital Projects		
Fund Balances:					
Nonspendable:					
Inventories	\$ 502,143	\$ -	\$ -	\$ 92,520	\$ 594,663
Prepaid Items	925,051	-	-	-	925,051
Restricted:					
Debt Service	-	7,044,209	-	-	7,044,209
Capital Projects:	-	-	2,173,279	-	2,173,279
Encumbrances	-	-	3,287,104	-	3,287,104
Assigned:					
School Operations:	-	-	-	5,586,153	5,586,153
Encumbrances	478,341	-	-	467,780	946,121
Insurance deductibles	200,000	-	-	-	200,000
Unemployment benefits	500,000	-	-	-	500,000
Unassigned	9,699,512	-	-	-	9,699,512
Total Fund Balance	\$ 12,305,047	\$ 7,044,209	\$ 5,460,383	\$ 6,146,453	\$ 30,956,092

# **FORT SMITH SCHOOL DISTRICT #100**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

### **12. On-Behalf Payments**

The allocation of the health insurance premiums paid by the Arkansas Department of education to the Employee benefits Division, on behalf of the District's employees, total \$4,491,936 for the year ended June 30, 2016.

### **13. Subsequent Events**

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2016 through January 12, 2017, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

# FORT SMITH SCHOOL DISTRICT #100

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - BUDGETARY BASIS

FOR THE YEAR ENDED JUNE 30, 2016

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>Revenues</b>			
Local property taxes	\$ 51,524,574	\$ 53,645,391	\$ 2,120,817
Tuition and services from other LEA	6,000	4,408	(1,592)
Interest	35,000	100,993	65,993
Contributions	-	189,509	189,509
Insurance recoveries	-	107,008	107,008
Other local revenues	235,359	558,068	322,709
State assistance	58,351,117	58,278,293	(72,824)
Unrestricted federal aid	5,000	12,582	7,582
<b>Total Revenues</b>	<b>110,157,050</b>	<b>112,896,252</b>	<b>2,739,202</b>
<b>Expenditures</b>			
Current:			
Regular programs	49,812,116	48,254,149	1,557,967
Special education	7,108,286	7,178,912	(70,626)
Vocational education	2,844,746	2,871,314	(26,568)
Compensatory education	596,494	584,303	12,191
Other instructional programs	532,689	488,792	43,897
Support services	43,983,795	42,217,476	1,766,319
Capital outlay	1,476,879	1,226,183	250,696
<b>Total Expenditures</b>	<b>106,355,005</b>	<b>102,821,129</b>	<b>3,533,876</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>3,802,045</b>	<b>10,075,123</b>	<b>6,273,078</b>
<b>Other Financing Sources (Uses)</b>			
Indirect cost reimbursement	201,977	118,479	(83,498)
Operating transfers	(5,836,608)	(9,810,015)	(3,973,407)
<b>Total Other Financing Sources (Uses)</b>	<b>(5,634,631)</b>	<b>(9,691,536)</b>	<b>(4,056,905)</b>
<b>Excess of Revenues and Other</b>			
<b>Sources Over (Under)</b>			
<b>Expenditures and Other Uses</b>	<b>(1,832,586)</b>	<b>383,587</b>	<b>2,216,173</b>
Fund Balance at Beginning of Year	11,921,460	11,921,460	-
<b>Fund Balance at End of Year</b>	<b>\$ 10,088,874</b>	<b>\$ 12,305,047</b>	<b>\$ 2,216,173</b>

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS LAST TWO FISCAL YEARS - ARKANSAS TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2016

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 9,338,281	\$ 9,964,322
Interest cost	42,948,254	40,427,482
Changes of benefit terms	-	(835,107)
Difference between expected and actual experience	3,868,911	(3,139,150)
Benefit payment, including refunds of employee contributions	(30,742,716)	(28,178,529)
Changes in proportion and differences between contributions	2,652,070	-
<b>Net change in total pension liability</b>	28,064,800	18,239,018
<b>Total pension liability - beginning</b>	532,689,653	514,450,635
<b>Total pension liability - ending</b>	\$ 560,754,453	\$ 532,689,653
<b>Plan Net Fiduciary Position</b>		
Contributions - employer	\$ 12,778,487	\$ 12,336,181
Contributions - employee	4,454,750	3,815,884
Net investment income	19,800,980	74,029,224
Benefit payments, including refunds of employee contributions	(30,742,716)	(28,178,529)
Administrative	(251,671)	(244,819)
<b>Net change in plan net fiduciary position</b>	6,039,830	61,757,941
<b>Plan net fiduciary position - beginning</b>	452,700,463	390,942,522
<b>Plan net fiduciary position - ending</b>	\$ 458,740,293	\$ 452,700,463
<b>Net pension (asset) / liability - ending</b>	\$ 102,014,160	\$ 79,989,190
<b>Plan net fiduciary position as percentage of total pension liability</b>	81.81%	84.98%
<b>Covered employee payroll</b>	\$ 91,276,529	\$ 88,114,626
<b>Net pension (asset)/liability position as percentage of covered employee payroll</b>	111.76%	90.78%

**Note to Schedule:**

Only two fiscal years are presented because 10-year data not yet available.

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS LAST TWO FISCAL YEARS - ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2016

	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 13,331	\$ 13,786
Interest cost	53,873	56,639
Difference between expected and actual experience	(10,872)	(1,927)
Changes of assumptions	15,183	18,474
Benefit payment, including refunds of employee contributions	(36,650)	(36,467)
Changes in proportion and differences between contributions	(10,103)	-
<b>Net change in total pension liability</b>	24,763	50,505
<b>Total pension liability - beginning</b>	769,804	719,299
<b>Total pension liability - ending</b>	\$ 794,567	\$ 769,804
<b>Plan Net Fiduciary Position</b>		
Contributions - employer	\$ 20,680	\$ 22,644
Contributions - employee	4,008	4,061
Net investment income	13,432	103,862
Benefit payments, including refunds of employee contributions	(36,650)	(36,467)
Administrative	(549)	(590)
Other	533	714
<b>Net change in plan net fiduciary position</b>	1,454	94,224
<b>Plan net fiduciary position - beginning</b>	647,675	553,451
<b>Plan net fiduciary position - ending</b>	\$ 649,129	\$ 647,675
<b>Net pension (asset) / liability - ending</b>	\$ 145,438	\$ 122,129
<b>Plan net fiduciary position as percentage of total pension liability</b>	81.70%	84.14%
<b>Covered employee payroll</b>	\$ 517,026	\$ 566,101
<b>Net pension (asset)/liability position as percentage of covered employee payroll</b>	28.13%	21.57%

**Note to Schedule:**

Only two fiscal years are presented because 10-year data not yet available.

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF EMPLOYER CONTRIBUTIONS LAST TWO FISCAL YEARS ARKANSAS TEACHER RETIREMENT SYSTEM

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### FOR THE YEAR ENDED JUNE 30, 2016

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	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 12,778,487	\$ 12,336,181
Contributions in relation to the contractually required contribution	\$ (12,778,487)	\$ (12,336,181)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 91,276,529	\$ 88,114,626
Contributions as a percentage of covered-employee payroll	14.00%	14.00%

**Note to Schedule:**

Only two fiscal years are presented because 10-year data not yet available.

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF EMPLOYER CONTRIBUTIONS LAST TWO FISCAL YEARS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

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### FOR THE YEAR ENDED JUNE 30, 2016

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	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 20,680	\$ 22,644
Contributions in relation to the contractually required contribution	\$ (20,680)	\$ (22,644)
Contribution deficiency (excess)	\$ -	\$ -
<hr/>		
District's covered-employee payroll	\$ 517,026	\$ 566,101
Contributions as a percentage of covered-employee payroll	4.00%	4.00%

**Note to Schedule:**

Only two fiscal years are presented because 10-year data not yet available.

See independent auditor's report.

***SUPPLEMENTARY AND OTHER INFORMATION***

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title	Agency or Pass-Through Entity	Federal CFDA Number	Federal Expen- ditures
<b>U.S. Department of Education</b>			
Special Ed Cluster			
E.S.E.A. Title VI, Grants to States	AR Department of Education	84.027	\$ 3,320,439
Special Education, Preschool	AR Department of Education	84.173A	174,945
<b>Total Special Ed Cluster</b>			<b>3,495,384</b>
Adult Education, Basic Grants to States	AR Department of Career Education	84.002A	253,373
Federal Adult Ed	AR Department of Career Education	84.002A	19,658
Adult Education - EL Civics	AR Department of Career Education	84.002A	27,871
Title I, Grants to Local Educational Agencies	AR Department of Education	84.010	5,394,897
Title I, Migrant Education	AR Department of Education	84.011	214,173
Career and Technical Education - Basic Grants Carl Perkins	AR Department of Career Education	84.048	246,665
Indian Education, Grants to Local Education Agencies	Received directly	84.060A	132,343
Education For Homeless Children & Youth	AR Department of Education	84.196A	55,872
Twenty-First Century Community Learning Centers	AR Department of Education	84.287	137,195
Title I Accountability Grants	AR Department of Education	84.348	3,446
English Language Acquisition Grants	AR Department of Education	84.365	346,922
Improving Teacher Quality State Grants	AR Department of Education	84.367	545,547
School Improvement Grants	AR Department of Education	84.377A	655,317
Preschool Development Grants	AR Department of Education	84.419	1,684,350
<b>Total U.S. Department of Education</b>			<b>13,213,013</b>
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster			
School Breakfast Program - Cash Assistance	AR Department of Education	10.553	1,377,302
National School Lunch Program - Cash Assistance	AR Department of Education	10.555	4,647,044
National School Lunch Program - Non-Cash Assistance	AR Department of Human Services	10.555	587,113
<b>Total Child Nutrition Cluster</b>			<b>6,611,459</b>
Child and Adult Care Food Program - Cash Assistance	AR Department of Human Services	10.558	54,610
<b>Total U.S. Department of Agriculture</b>			<b>6,666,069</b>

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Program Title	Agency or Pass-Through Entity	Federal CFDA Number	Federal Expen- ditures
<b>U.S. Department of Health and Human Services</b>			
Child Care and Development Fund Cluster			
Child Care and Development Block Grant	AR Department of Human Services	93.575	518,191
Child Care Mandatory and Matching Funds	AR Department of Human Services	93.596	110,000
<b>Total U.S. Department of Health and Human Services</b>			<b>628,191</b>
<b>U.S. Department of Army</b>			
ROTC	Received directly	12.001	64,901
<b>Total U.S. Department of Army</b>			<b>64,901</b>
<b>Total Federal Awards</b>			<b>\$ 20,572,174</b>

### Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Fort Smith Public Schools under programs of the federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Fort Smith Public Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

### Note B - Summary of Significant Accounting Policies

1. This schedule of expenditures of federal awards includes the federal program activity of Fort Smith Public Schools and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Fort Smith Public Schools does not charge indirect cost rates and charges 100% of their costs directly.

### Note C - Subrecipient Awards

Of the federal expenditures presented in this schedule, Fort Smith School District #100 provided federal awards to subrecipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Amount Provided</u>
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No awards were provided to subrecipients

### Note D - Supplemental Disclosure of Governmental Assistance Information

Title XIX - Medicaid		
Medical Assistance Program (MEDICAID CATASTROPHIC)	\$	<u>122,025</u>
Total Medicaid	\$	<u><u>122,025</u></u>

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF EXPENDITURES OF STATE AWARDS

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FOR THE YEAR ENDED JUNE 30, 2016

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Grantor Agency/Program Title	State Revenues	State Expenditures
Arkansas Department of Education on behalf of the Arkansas Early Childhood Commission Arkansas Better Chance	\$ 1,480,852	\$ 1,480,852
<b>Total Expenditures of State Awards</b>	<b>\$ 1,480,852</b>	<b>\$ 1,480,852</b>

### Note A - Basis of Presentation

This schedule of expenditures of state awards includes the state program activity of Fort Smith School District #100 and is presented on the accrual basis of accounting.

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF MEAL AND MILK SALES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Student Breakfast</u>	<u>Student Lunch</u>	<u>Adult Breakfast</u>	<u>Adult Lunch</u>	<u>Snack Bar Ala Carte Milk and Juice</u>	<u>Total</u>
Ballman	\$ 3,694	\$ 15,832	\$ 146	\$ 2,411	\$ 364	\$ 22,447
Barling	4,543	18,342	65	2,281	257	25,488
Beard	5,961	18,695	153	989	267	26,065
Bonneville	6,033	14,861	7	345	275	21,521
Carnall	4,155	9,758	254	1,966	410	16,543
Cavanaugh	7,299	18,749	11	494	405	26,958
Cook	12,573	36,285	295	933	483	50,569
Euper Lane	7,923	21,302	20	1,210	487	30,942
Fairview	5,877	19,181	108	3,014	415	28,595
Howard	1,873	4,449	77	896	35	7,330
Morrison	1,097	3,724	302	2,736	363	8,222
Orr	7,196	20,572	9	1,444	488	29,709
Pike	1,937	6,708	569	1,146	328	10,688
Spradling	1,559	4,943	207	2,135	4	8,848
Sunnymede	2,670	11,851	419	4,557	158	19,655
Sutton	2,183	9,030	5	667	107	11,992
Tilles	1,854	3,764	144	1,591	328	7,681
Trusty	975	3,699	101	2,166	62	7,003
Woods	6,971	39,893	11	1,987	403	49,265
Belle Point	891	1,770	198	2,044	16	4,919
Chaffin	4,940	25,914	2	1,131	50,955	82,942
Darby	748	10,946	58	5,001	10,475	27,228
Kimmons	2,666	14,783	7	2,592	25,126	45,174
Ramsey	5,698	35,209	27	4,571	77,109	122,614
Northside	2,934	14,852	27	917	55,259	73,989
Southside	4,457	23,068	16	5,102	73,983	106,626
<b>Totals</b>	<b>\$ 108,707</b>	<b>\$ 408,180</b>	<b>\$ 3,238</b>	<b>\$ 54,326</b>	<b>\$ 298,562</b>	<b>\$ 873,013</b>

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF SCHOOL BREAKFASTS SERVED

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Student Free</u>	<u>Student Reduced</u>	<u>Student Paid</u>	<u>Adult Paid</u>	<u>Total</u>
Ballman	16,744	1,285	2,646	65	20,740
Barling	20,117	4,094	2,652	29	26,892
Beard	15,180	1,206	4,478	68	20,932
Bonneville	14,592	2,684	4,182	3	21,461
Carnall	27,527	2,359	2,752	113	32,751
Cavanaugh	13,039	3,029	5,111	5	21,184
Cook	17,838	4,645	8,942	131	31,556
Euper Lane	20,650	2,059	5,844	9	28,562
Fairview	43,286	3,464	3,870	48	50,668
Howard	25,297	1,218	1,206	34	27,755
Morrison	25,592	1,474	524	134	27,724
Orr	19,038	2,798	5,085	4	26,925
Pike	45,341	2,990	795	253	49,379
Spradling	40,051	2,085	747	92	42,975
Sunnymede	54,324	2,605	1,510	186	58,625
Sutton	36,092	2,660	1,108	2	39,862
Tilles	36,567	1,097	1,219	64	38,947
Trusty	27,729	1,238	483	45	29,495
Woods	8,958	2,375	5,007	5	16,345
Belle Point	6,865	600	569	88	8,122
Chaffin	9,566	1,652	3,555	1	14,774
Darby	19,999	1,010	356	26	21,391
Kimmons	34,234	3,062	1,398	3	38,697
Ramsey	17,813	1,843	4,116	12	23,784
Northside	25,722	2,513	1,744	12	29,991
Southside	10,367	1,574	3,188	7	15,136
Totals	632,528	57,619	73,087	1,439	764,673

See independent auditor's report.

# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF SCHOOL LUNCHES SERVED

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Student Free</u>	<u>Student Reduced</u>	<u>Student Paid</u>	<u>Adult Paid</u>	<u>Total</u>
Ballman	36,216	3,114	7,059	679	47,068
Barling	39,727	7,395	6,909	643	54,674
Beard	26,150	2,507	8,027	281	36,965
Bonneville	27,531	4,225	6,057	93	37,906
Carnall	39,495	5,079	3,426	617	48,617
Cavanaugh	20,954	3,858	8,087	149	33,048
Cook	29,999	7,537	15,500	270	53,306
Euper Lane	30,555	3,632	9,438	332	43,957
Fairview	72,459	6,031	7,509	881	86,880
Howard	52,068	3,128	1,729	263	57,188
Morrison	45,020	2,800	1,669	771	50,260
Orr	32,219	5,267	8,529	386	46,401
Pike	83,164	5,789	2,093	296	91,342
Spradling	74,757	4,237	1,780	619	81,393
Sunnymede	97,818	6,197	4,454	1,366	109,835
Sutton	83,215	5,754	3,179	241	92,389
Tilles	67,857	1,965	1,892	418	72,132
Trusty	52,906	1,648	1,406	580	56,540
Woods	23,099	5,869	16,954	332	46,254
Belle Point	9,498	680	582	551	11,311
Chaffin	29,154	5,152	8,670	194	43,170
Darby	83,151	4,994	3,583	1,134	92,862
Kimmons	88,387	8,014	4,384	558	101,343
Ramsey	48,375	5,494	12,773	693	67,335
Northside	103,678	8,995	4,627	132	117,432
Southside	35,567	5,278	8,233	845	49,923
Totals	1,333,019	124,639	158,549	13,324	1,629,531
Total Breakfasts and Lunches	1,965,547	182,258	231,636	14,763	2,394,204

See independent auditor's report.

***ADDITIONAL REQUIRED REPORTS***



**Independent Auditor's Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With *Government Auditing Standards***

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To the School Board  
Fort Smith School District #100  
Fort Smith, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major funds, and aggregate remaining fund information of the **Fort Smith School District #100** as of and for the year ended **June 30, 2016**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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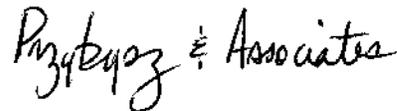
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 12, 2017**



## **Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance Required by the Uniform Guidance**

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To the School Board  
Fort Smith School District #100  
Fort Smith, Arkansas

### **Report on Compliance for Each Major Federal Program**

We have audited the **Fort Smith School District #100's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. 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.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the Fort Smith School District #100 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 12, 2017**



## Independent Auditor's Report On Compliance With Arkansas State Requirements

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To the School Board  
Fort Smith School District #100  
Fort Smith, Arkansas

We have examined management's assertions, included in its representation letter dated January 12, 2017, that the **Fort Smith School District #100** 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, 2016**. As discussed in that representation letter, management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the District's compliance based on our examination.

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

In our opinion, management's assertions that **Fort Smith School District #100** complied with the aforementioned requirements for the year ended **June 30, 2016**, are fairly stated, in all material respects.

This report is intended solely for the information and used 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.

**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**January 12, 2017**

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# FORT SMITH SCHOOL DISTRICT #100

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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FOR THE YEAR ENDED JUNE 30, 2016

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### Section I - Summary of Auditor's Results

#### Financial Statements

Types of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Noncompliance material to financial statements noted?

yes  no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

yes  no

Significant deficiency(ies) identified?

yes  none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)?

yes  no

Identification of major programs:

CFDA Number(s)

84.010

84.419

Name of Federal Program or Cluster

Title I

Preschool Development Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

yes  no

### Section II - Financial Statement Findings - Current Year

No findings.

### Section III - Federal Award Findings and Questioned Costs

No matters were reported.

# **FORT SMITH SCHOOL DISTRICT #100**

## **FEDERAL AWARD PROGRAMS - SCHEDULE OF PRIOR AUDIT FINDINGS**

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**FOR THE YEAR ENDED JUNE 30, 2016**

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There were no prior audit findings for the year ended June 30, 2015.

# FORT SMITH SCHOOL DISTRICT #100

SUPPLEMENTAL DATA SHEET AS REQUIRED BY ArDHS

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**JUNE 30, 2016**

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**Name:** Fort Smith School District #100

**Address:** 3205 Jenny Lind, P.O. Box 1948, Fort Smith, AR 72902-1948

**EIN Number:** 71-6020978

**Phone Number:** (479) 785-2501

**Administrative Officer:** Dr. Gordon Floyd

**Contact Person:** Charles Warren, CPA

**Audit Firm:** Przybysz & Associates, CPAs, P.C.

**Lead Auditor:** Marc Lux, CPA