

FORT SMITH SCHOOL DISTRICT #100
FINANCIAL STATEMENTS
JUNE 30, 2015



FORT SMITH SCHOOL DISTRICT #100

JUNE 30, 2015

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-11
Financial Statements	
Statement of Net Position.....	12
Statement of Activities.....	13
Balance Sheet - Governmental Funds.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Fiduciary Net Position and Liabilities.....	18
Notes to Financial Statements.....	19-36
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund-Budgetary Basis.....	37
Required Supplement Information for Cost-Sharing Employer Plans.....	38
Supplementary and Other Information	
Schedule of Expenditures of Federal Awards.....	39-40
Schedule of Expenditures of State Awards.....	41
School Lunch Fund	
Schedule of Meal and Milk Sales.....	42
Schedule of School Breakfasts Served.....	43
Schedule of School Lunches Served.....	44
Schedule of Findings and Questioned Costs.....	45
Federal Award Programs - Schedule of Prior Audit Findings.....	46
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 <i>Government Auditing Standards</i>	47-48
Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance Required By OMB Circular A-133.....	49-50
Independent Auditor's Report On Compliance with Arkansas State Requirements.....	51



Independent Auditor's Report

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, 2015**, 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, 2015**, 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, 37, and 38 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.

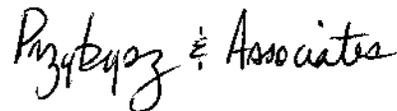
Other Information

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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations 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 December 7, 2015, 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
December 7, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORT SMITH PUBLIC SCHOOL DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015

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, 2015. 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 distort the financial picture of the District, especially in comparison to the previous year, when GASB 68 standards were not applied. The District's portion of the net pension liabilities and annual expenses were provided from ATRS and APERS and are now incorporated in these financial statements.

Specifically, only the district-wide financial statements reflect the effects of the GASB 68 standards. Only the district-wide financial statements on page 12 will include a new line item listed as net pension liability in the noncurrent liabilities section and a new section of deferred inflows and outflows. Truthfully, these 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 are not impacted and become an even better source of information, verifying the overall good health of the District's financial position.

- As mentioned, page 12 reflects a new noncurrent liability called net pension liability of \$67.3 million. Also, the new category, deferred inflows, adds another \$29.7 million dollars in obligations. This \$97.0 million impact is more than the decrease in the unrestricted undesignated net position of \$95.7 million.
- Total general revenues increased by \$4.6 million or 3.2% during the year ending on June 30, 2015. Expenses for various programs and operations increased by \$19.0 million or 13.0%. However, pension costs related to GASB 68 account for \$16.9 million of the increase of \$19.0 million. Excluding the pension costs, the overall increase in revenue exceeded the increase of expenses by \$2.5 million, which is identical to the same computation from last year.
- Pension costs related to GASB 68 of \$16.9 million dollars plus the \$80.1 million GASB 68 adjustment listed on page 13 equals the \$97.0 million impact listed above. Removing the \$97.0 million GASB 68 impact leaves an ending net position of \$99.4 million, an increase of \$1.1 million from the ending net position of \$98.3 of the previous year.

The Fort Smith Public School District's overall financial position remains stable. 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 now, 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, 2015, of \$2.4 million reflect the excess of assets over liabilities. The Statement of Net Position presented on page 12 reflects the details, while the following is a summarized comparison for analysis.

	Governmental Activities			
	2015	2014	\$ of Change	% of Total Change
Current Assets	\$29.1	\$38.3	-\$9.2	235.9%
Capital Assets	155.5	150.2	5.3	-135.9%
Deferred Outflows	0.3	0.3	0.0	0.00%
Total Assets	184.9	188.8	-3.9	100.0%
Current Liabilities	7.5	9.9	-2.4	-2.6%
Non-current Liabilities	145.3	80.6	64.7	70.3%
Deferred Inflows	29.7	0.0	29.7	32.3%
Total Liabilities	182.5	90.5	92.0	100.0%
Net Assets:				
Invested in Capital Assets, net of related debt	80.4	82.1	-1.7	1.8%
Restricted Net Position	5.1	3.6	1.5	-1.6%
Unrestricted Net Position	-83.1	12.6	-95.7	99.8%
Total Net Position	\$2.4	\$98.3	-\$95.9	100.0%

Table 1-1 on the previous page reflects the decline in the financial position of the District with a 97.6% or \$95.9 million decrease in total net position. Decreases are reflected in both the restricted and unrestricted net position while the investment in capital assets decreased. The continued net spending in capital assets by the District in new buildings, renovations and new equipment did not exceed the additional debt added resulting in a net decrease of \$1.7 million. Restricted net position increased by a net of \$1.5 million because of sinking funds obligations paid. The decrease in undesignated net position of \$95.7 million at the end of the period has two contributing factors. The first component is an increase of \$1.3 million primarily due to fixed assets paid during the period from funds other than the capital project fund. The second component is the most significant and it is the decrease of \$97.0 million due to the accruals required by GASB 68 discussed earlier.

	Governmental Activities			
	2015	2014	\$ of Change	% of Total Change
Program Revenues:				
Charges for services	\$1.4	\$1.6	-\$0.2	-4.3%
Operating grants and contributions	38.4	36.8	1.6	34.8%
General Revenues:				
Property taxes	51.4	50.6	0.8	17.4%
Unrestricted grants and contributions	57.4	54.8	2.6	56.5%
Investment earnings	1.1	1.2	-0.1	-2.2%
Insurance recoveries	0.0	0.1	-0.1	-2.2%
Miscellaneous	0.0	0.0	0.0	0.0%
Total Revenue	149.7	145.1	4.6	100.0%
Expenses				
Instruction	90.3	77.5	12.8	67.4%
Student and instruction support	27.1	23.0	4.1	21.6%
Administration and business support	13.4	11.2	2.2	11.6%
Operations and maintenance	15.4	15.2	0.2	1.1%
Student transportation	2.9	2.9	0.0	0.0%
Food service	7.3	7.3	0.0	0.0%
Other	9.1	9.4	-0.3	-1.7%
Total Expense	165.5	146.5	\$19.0	100.0%
Increase (decrease) in Net Position	-15.8	-1.4		
GASB 68 Implementation Adjustment	-80.1	0.00		
Beginning Net Position (with transitional rounding)	98.3	99.7		
Ending Net Position	\$2.4	\$98.3		

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, 2015 and 2014.

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 3.2% or \$4.6 million, and total expenses increased by 13.0% or \$19.0 million for the year ended June 30, 2015.

As reflected in the Statement of Activities, the expenses of the District's governmental activities of \$165.5 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 \$38.4 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 \$125.9 million, an increase of 16.5%, 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 \$1.4 million and an increase in general revenues of \$3.2 million. The majority of the increase in general revenues is an increase of unrestricted grants and contributions of \$2.6 million.

Again, GASB 68 makes comparisons of annual expenses difficult. Total expenses increased \$19.0 million, but \$16.9 million of this increase is due to current year expenses associated with GASB 68 accrued pension costs. Additions to total expenses that are more consistent include \$2.3 million of salary increases and additional staff. All of these increases were distributed throughout most of the functional categories.

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			
	2015	2014	\$ of	% of Total	2015	2014	\$ of	% of Total
			Change	Change			Change	Change
Expenses								
Instruction	\$90.3	\$77.5	\$12.8	67.4%	\$71.5	\$59.4	\$12.1	68.0%
Student and instruction support	27.1	23.0	4.1	21.6%	16.7	13.5	3.2	18.0%
Administration & business support	13.4	11.2	2.2	11.6%	13.3	11.2	2.1	11.8%
Operations and maintenance	15.4	15.2	0.2	1.1%	15.4	15.1	0.3	1.7%
Student transportation	2.9	2.9	0.0	0.0%	2.7	1.3	1.4	7.9%
Food service	7.3	7.3	0.0	0.0%	0.0	0.2	-0.2	-1.1%
Other	9.1	9.4	-0.3	-1.7%	6.3	7.4	-1.1	-6.3%
	<u>\$165.5</u>	<u>\$146.5</u>	<u>\$19.0</u>	<u>100.0%</u>	<u>\$125.9</u>	<u>\$108.1</u>	<u>\$17.8</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, 2015 and 2014. 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 \$19.0 million, net costs increased by \$17.8 million. Once again, removing the effects of GASB 68, including the increase of \$16.9 million in accrued pension costs eliminate all but \$2.1 million total increase and a \$0.9 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, 2015, the District governmental funds reported a combined fund balance of \$26.8 million, which is a decrease of \$6.7 million from June 30, 2014 balances. Table 1-4 presents the changes in the major fund balances of the District.

	Fund Balances			
	2015	2014	\$ of Change	% of Total Change
General Fund	\$11.9	\$11.9	\$0.0	0.0%
Debt Service Fund	5.4	3.8	1.6	-23.9%
Capital Projects Fund	3.9	12.9	-9.0	134.3%
Other Governmental Funds	5.6	4.9	0.7	-10.4%
	<u>\$26.8</u>	<u>\$33.5</u>	<u>-\$6.7</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 26-27 in the notes to the financial statements.

The Capital Projects Fund Balance decreased as bonds that were sold in previous years were expended to support projects completing construction in the current year. 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 25, 2014.

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 37.

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 \$0.1 million were due to unanticipated revenues in Contributions, Other local revenue and State assistance. In addition to the total favorable revenue variance, there was a total favorable expenditure variance of \$4.0 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 \$0.6 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 \$155.5 million (net of accumulated depreciation) on June 30, 2015 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 and Darby Junior High School. These projects and other school renovation projects were in various stages of completion throughout the District. During the current fiscal year, \$12.6 million in assets were capitalized. Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$8.2 million and \$8.0 million respectively.

	2015	2014	\$ of Change	% of Total Change
Land	\$7.0	\$6.9	\$0.1	1.8%
Land Improvements	3.0	3.2	-0.2	-3.6%
Construction in Progress	8.0	12.0	-4.0	-72.7%
Buildings and Improvements	121.7	111.7	10.0	181.8%
Furniture, Fixtures and Equipment	14.3	14.7	-0.4	-7.3%
Vehicles	1.5	1.5	0.0	0.0%
	<u>\$155.5</u>	<u>\$150.0</u>	<u>\$5.5</u>	<u>100.0%</u>

Long-Term Debt

On June 30, 2015, the District had outstanding long-term debt of \$83.2 million compared to \$85.8 million on June 30, 2014. There were no issuance of new long-term debt and changes in compensated absences were minimal. The repayments to bonded and other long-term debt made during the year were \$2.6 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. The current level of the long-term debt of \$83.2 million represents approximately two-thirds the ratio average for Arkansas school districts. 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 26-27.

Final Financial Highlights and Analysis

- Student enrollment was relatively stable during the 2014-2015 year. Enrollment trends reflected increases at the secondary level, but a decline in kindergarten enrollment generally offset gains elsewhere. The kindergarten decline reflected a dip in the number of live births which corresponded with the overall recession 5-6 years earlier.
- Continued growth of the Pre-K program and a number of other initiatives emphasized addressing the learning needs of struggling students. A strong and well-received after-school initiative targeting students whose academic performance is below optimal levels represents a sound investment in academic growth for students on most campuses. The costs associated with this program are seen in categorical spending for instruction.
- 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 2014-2015 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.
- Funding received previously in the form of Qualified Zone Academy Bonds (QZAB) continued to support facility improvement projects on several campuses as funding from this source was depleted. Since its inception, the QZAB funded improvements have reached to practically every campus and have totaled more than \$25 million. All these funds are essentially zero interest loans retired from current operating revenues.
- The District has continued to refinance outstanding bond issues when they are eligible and when sufficient savings can be realized to result in advantage in order to realize the benefit of favorable interest rates. This action will result in interest savings during the future term of the bonds. Revised reporting regulations have resulted in continuing financial disclosures and other changes which are reflected in the bond schedules as well as requiring that any savings be reinvested into facilities.
- Assessed valuation has continued to be stagnant despite significant new construction and other favorable economic indicators during the year. A review of assessment trends reveals that the increases in total assessment for 2014-2015 and 2015-2016 were the lowest in at least two decades. While many factors may influence this trend, the actions authorized by Amendment 79 and approved by the Arkansas General Assembly freezing assessments on owner-occupied residences for those over age 65 is likely resulting in a perpetual drag on assessment growth. Other factors include the decline in minerals valuation caused by a drop in gas production and pricing.
- The 2015 session of the Arkansas General Assembly resulted in an increase in the adopted level of Foundation Aid which was insufficient to allow for the pattern of regular salary increases to be approved for 2015-2016. The funding increase was scarcely adequate to fund the scheduled longevity increases in existing salary schedules. Since the 2015 session resulted in appropriations for the two-years, the pattern is already set until the 2017 General Assembly meets. This means that state funding cannot be expected to improve until 2017-2018.
- Continued instability in the rate structure and funding for employee health insurance provided through the Employee Benefits Division for Arkansas school staff resulted in adverse legislative action diverting revenues from local school districts in support of the statewide program. This impact on FSPS was especially troubling inasmuch as local contributions for employee health insurance and employee participation are both significantly higher than the state average.

Economic Factors and Next Year's Budget

Although the state revenue trends continue to be positive, little hope for improved funding for Arkansas schools can be found. State leadership continues to focus on tax reductions while displaying a willingness to freeze revenue in a number of critical programs affecting schools and the students they serve. Since 2016 is an election year this condition cannot reasonably be expected to improve.

As the testimony and data-gathering for the 2016 Adequacy Study mandated in advance of each regular legislative session is underway, the uncertainty about future funding is significant. Past experience indicates that the General Assembly sometimes disregards data and therefore fails to acknowledge the true costs of school operations in favor of a contrived model of funding which attempts to limit allocations. This factor is especially troubling as mandated services, community expectations and student needs grow beyond available resources provided as Foundation Aid.

After the change of direction in long-range facility plans in 2014, a number of projects have been identified as part of the Master Facility Plan required by the Arkansas Division of Public School Academic Facilities and Transportation (DPSAFT). These facility projects involve additions/renovations to existing campuses as well as the development of a district-wide events complex to serve all schools. Applications for available Partnership funds will be made to DPSAFT in a timely manner.

Foremost in planning by the Board of Education and school staff is the necessity to secure passage of bond financing including an increase in the school district millage dedicated to retire long-term debt. While tax increases are always a challenge for any public entity, it is worthy of note that the Fort Smith Public School tax rate is the lowest among any of Arkansas' large school districts or districts in a close proximity to FSPS. The current rate of tax has been constant since 1987.

The Board of Education adopted the 2015-2016 budget on August 24, 2015. Revenue and other resources are projected to total \$153.5 million while expenditures should total \$157.6 million as funds devoted to scheduled capital expenditures are depleted. The operating budget is substantially unchanged for 2015-2016.

The growth in student population for 2015-2016 resumed its upward trajectory after the plateau in the prior year. Projections indicate that this trend is likely to continue—without presenting sharp increases or declines for the next decade.

The opening of an open enrollment charter school in Fort Smith can be expected to adversely affect the financial stability of the Fort Smith Public Schools in proportion to the number of former FSPS students which this school may attract. The loss of Foundation Aid commensurate with a loss of students will present challenges. It is difficult to adjust staffing and operational costs in the same proportion as student enrollment loss occurs.

Maintaining the financial stability of the Fort Smith Public Schools as the mission of serving more than 14,000 students continues must be the top priority for school district leaders in the future. Any decision which jeopardizes this financial stability must be avoided in the interest of the very future of the community and its schools.

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, Director of Financial Services or Benny L. Gooden, Superintendent of Schools at the Fort Smith Public Schools, 3205 Jenny Lind, P.O. Box 1948, Fort Smith, AR 72902 or by calling (479) 785-2501 during regular office hours or via e-mail at cwarren@fortsmithschools.org or bgooden@fortsmithschools.org.

FINANCIAL STATEMENTS

FORT SMITH SCHOOL DISTRICT #100

Statement of Net Position

AS OF JUNE 30, 2015

Assets	Governmental Activities	
	2015	2014
Current Assets:		
Cash and temporary investments	\$ 20,812,834	\$ 31,707,961
Receivables:		
Intergovernmental	6,572,010	5,643,698
Other	1,165	62,567
Inventories, at cost	804,359	736,606
Prepaid items	880,031	95,857
Total Current Assets	29,070,399	38,246,689
Noncurrent Assets:		
Capital Assets:		
Land	6,955,592	6,946,025
Land improvements	5,435,505	5,438,393
Building and improvements	185,583,692	170,381,967
Furniture, fixtures, and equipment	38,452,538	37,311,765
Vehicles	7,073,329	6,963,533
Construction in process	8,035,102	12,023,306
Less accumulated depreciation	(96,040,639)	(88,853,859)
Capital Assets-Net	155,495,119	150,211,130
Total Assets	184,565,518	188,457,819
Deferred Outflows		
Deferred loss on refunding, net of amortization	296,527	321,863
Changes in actuarial assumptions	11,320	-
Total Deferred Outflows	307,847	321,863
Liabilities		
Current liabilities:		
Accounts payable	474,059	2,833,853
Payroll withholdings	1,752,614	1,772,448
Due to participants/vendors	53,173	46,379
Other deferred revenue	2,065	-
Current portion of long-term debt	4,297,746	4,210,511
Accrued interest	694,314	746,186
Compensated absences	190,000	260,000
Total Current Liabilities	7,463,971	9,869,377
Noncurrent liabilities:		
Bonds and notes payable, net of unamortized bond discounts	73,373,613	76,034,166
Compensated absences	4,592,997	4,537,208
Net pension liability	67,332,969	-
Total Noncurrent Liabilities	145,299,579	80,571,374
Total Liabilities	152,763,550	90,440,751
Deferred Inflows		
Difference between expected and actual experience	2,132,051	-
Net difference between projected and actual investment earnings on pension plan investments	27,550,489	-
Total Deferred Inflows	29,682,540	-
Net Position		
Net investment in capital assets	80,382,979	82,160,805
Restricted for:		
Encumbrances	431,523	469,434
Debt service	4,704,528	3,103,101
Unrestricted:		
Designated for insurance deductibles	200,000	200,000
Designated for unemployment benefits	500,000	500,000
Undesignated	(83,791,755)	11,905,591
Total Net Position - Deficit	\$ 2,427,275	\$ 98,338,931

See accompanying notes and independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Statement of Activities

FOR THE YEAR ENDED JUNE 30, 2015

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	
				2015	2014
Governmental Activities					
Instruction:					
Regular programs	\$ 62,712,945	\$ 15,500	\$ 4,941,324	\$ (57,756,121)	\$ (48,672,631)
Special education	12,142,144	-	4,468,920	(7,673,224)	(5,670,914)
Vocational education	3,861,486	-	248,283	(3,613,203)	(2,839,369)
Adult education	1,551,109	-	1,397,066	(154,043)	(81,656)
Compensatory education	6,670,729	-	5,505,201	(1,165,528)	31,730
Other instructional programs	3,411,248	85,691	2,159,073	(1,166,484)	(2,219,811)
Support services:					
Student	11,039,182	-	2,989,378	(8,049,804)	(6,965,223)
Instructional	16,110,698	-	7,449,707	(8,660,991)	(6,532,685)
General administration	1,172,401	-	3,792	(1,168,609)	(984,761)
School administration	9,660,702	-	48,607	(9,612,095)	(7,828,525)
Business	2,560,336	-	9,604	(2,550,732)	(2,346,511)
Operation and maintenance of plant	15,442,943	-	77,011	(15,365,932)	(15,107,013)
Student transportation	2,948,700	75,814	222,424	(2,650,462)	(1,308,091)
Central	2,932	-	114,607	111,675	116,007
Other	169,998	-	-	(169,998)	(56,970)
Community services	576,412	208,992	643,531	276,111	105,157
Food service	7,310,712	1,028,954	6,330,627	48,869	(154,465)
Facilities acquisition and construction	-	-	1,607,177	1,607,177	741,606
Interest and fees on long-term debt	2,634,926	-	38,435	(2,596,491)	(3,138,552)
Indirect cost	155,255	-	155,255	-	-
Depreciation - unallocated	5,553,853	-	-	(5,553,853)	(5,173,553)
Total Governmental Activities	165,688,711	1,414,951	38,410,022	(125,863,738)	(108,086,230)
Total Primary Government	\$ 165,688,711	\$ 1,414,951	\$ 38,410,022	(125,863,738)	(108,086,230)
General Revenues:					
Property taxes levied for:					
General purpose				51,441,388	50,561,385
Grants and contributions not restricted to specific programs				57,410,337	54,833,524
Investment earnings				1,175,566	1,192,842
Insurance recoveries				46,995	94,906
Miscellaneous				16,634	19,910
Loss on asset disposal				(27,155)	(24,205)
Transfers				-	-
Total General Revenues and Transfers				110,063,765	106,678,362
Change in Net Position				(15,799,973)	(1,407,868)
Net position at beginning of year as previously stated				98,338,931	99,746,799
GASB 68 implementation adjustment				(80,111,683)	-
Net position at beginning of year as restated				18,227,248	-
Net Position at End of Year				\$ 2,427,275	\$ 98,338,931

See accompanying notes and independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Balance Sheet - Governmental Funds

AS OF JUNE 30, 2015

	General Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	\$ 9,430,095	\$ 5,398,842	\$ 2,906,490	\$ 3,077,407	\$ 20,812,834
Receivables:					
Intergovernmental	2,797,467	-	1,355,814	2,418,729	6,572,010
Other	294	-	-	871	1,165
Inventories, at cost	649,016	-	-	155,343	804,359
Prepaid items	880,031	-	-	-	880,031
Total Assets	\$ 13,756,903	\$ 5,398,842	\$ 4,262,304	\$ 5,652,350	\$ 29,070,399
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 29,656	\$ -	\$ 347,271	\$ 97,132	\$ 474,059
Payroll withholdings	1,752,614	-	-	-	1,752,614
Due to participants/vendors	53,173	-	-	-	53,173
Other deferred revenue	-	-	-	2,065	2,065
Total Liabilities	1,835,443	-	347,271	99,197	2,281,911
Fund Balances					
Nonspendable	1,529,047	-	-	155,343	1,684,390
Spendable:					
Restricted	-	5,398,842	3,915,033	-	9,313,875
Assigned	1,105,067	-	-	5,397,810	6,502,877
Unassigned	9,287,346	-	-	-	9,287,346
Total Fund Balances	11,921,460	5,398,842	3,915,033	5,553,153	26,788,488
Total Liabilities and Fund Balances	\$ 13,756,903	\$ 5,398,842	\$ 4,262,304	\$ 5,652,350	\$ 29,070,399

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

AS OF JUNE 30, 2015

Total Fund Balances - Governmental Funds	\$ 26,788,488
Amounts reported for governmental <i>activities</i> 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 \$251,535,758 and the accumulated depreciation is \$96,040,639.	155,495,119
Deferred outflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	11,320
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	\$ (78,375,525)
Accrued interest on bonds and QZABs	(694,314)
Unamortized bond discounts	704,166
Unamortized deferred loss on refinance of debt	296,527
Compensated absences	(4,782,997)
Net pension liability	(67,332,969) (150,185,112)
Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.	(29,682,540)
Total Net Position - Governmental Activities	\$ 2,427,275

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, 2015

	General Fund	Debt Service Fund	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 51,441,388	\$ -	\$ -	\$ -	51,441,388
Meal sales	-	-	-	1,028,954	1,028,954
Interest	76,379	1,083,681	15,049	457	1,175,566
Contributions	267,222	-	-	-	267,222
Insurance recoveries	46,995	-	-	-	46,995
Other local revenues	123,451	-	-	208,993	332,444
State assistance	57,318,784	-	1,607,177	18,108,489	77,034,450
Unrestricted federal aid	16,634	-	-	-	16,634
Restricted federal aid	-	-	-	18,416,985	18,416,985
Total Revenues	109,290,853	1,083,681	1,622,226	37,763,878	149,760,638
Expenditures					
Current:					
Regular programs	48,101,087	-	-	3,296,744	51,397,831
Special education	7,055,088	-	-	3,568,833	10,623,921
Vocational education	2,857,083	-	-	272,918	3,130,001
Adult education	-	-	-	1,550,257	1,550,257
Compensatory education	599,971	-	-	5,653,423	6,253,394
Other instructional programs	530,744	-	-	2,829,004	3,359,748
Support services	42,367,571	-	-	11,291,256	53,658,827
Food service	-	-	-	7,228,350	7,228,350
Community services	74,447	-	15,149	482,768	572,364
Capital outlay	1,209,190	-	11,639,451	708,044	13,556,685
Debt service:					
Principal	-	2,618,202	-	-	2,618,202
Interest	-	2,607,863	-	-	2,607,863
Paying agent's fees	-	8,716	-	-	8,716
Total Expenditures	102,795,181	5,234,781	11,654,600	36,881,597	156,566,159
Excess of Revenues Over (Under) Expenditures	6,495,672	(4,151,100)	(10,032,374)	882,281	(6,805,521)
Other Financing Sources (Uses)					
Indirect cost reimbursement	155,255	-	-	(155,255)	-
Operating transfers in	-	5,700,655	1,000,000	-	6,700,655
Operating transfers out	(6,662,220)	-	-	(38,435)	(6,700,655)
Total Other Financing Sources (Uses)	(6,506,965)	5,700,655	1,000,000	(193,690)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses					
	(11,293)	1,549,555	(9,032,374)	688,591	(6,805,521)
Fund Balance at Beginning of Year	11,932,753	3,849,287	12,947,407	4,864,562	33,594,009
Fund Balance at End of Year	\$ 11,921,460	\$ 5,398,842	\$ 3,915,033	\$ 5,553,153	\$ 26,788,488

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, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (6,805,521)

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

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 (\$8,245,542) is exceeded by capital outlays (\$13,556,685) in the period. 5,311,143

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. 51,872

Because less compensated absences were accrued during the year than were paid, a net decrease in other long-term liabilities occurred. This is the amount by which compensated absences earned were less than compensated absences paid. 14,211

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. 2,618,202

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:

Increase in deferred inflows related to pensions	\$ (29,682,540)	
Increase in deferred outflows related to pensions	11,320	(29,671,220)

Decrease in net pension liability 12,778,714

Bond discounts and deferred loss on refunding costs are reported in governmental funds expenditures. However, in the statement of activities, the cost of those assets is 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 (\$70,219) exceeds current year bond discounts and deferred loss on refunding costs (\$0). (70,219)

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	(1,085,917)
Accumulated depreciation of assets disposed	1,058,762

Change in Net Position of Governmental Activities \$ (15,799,973)

See accompanying notes and independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Statement of Fiduciary Net Position

AS OF JUNE 30, 2015

	<u>STUDENT ACTIVITY FUND</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 1,205,679
Total Assets	\$ 1,205,679
Liabilities	
Due to student groups	\$ 1,205,679
Total Liabilities	\$ 1,205,679

See accompanying notes and independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

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 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 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, 2015

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 driven 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.

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.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

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.

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 and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities and Equity (continued)

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.

Comparative information

Comparative information for the 2014 fiscal year has been presented on the government-wide statements.

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.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued)

Compensated absences (continued)

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.

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 2014 assessed valuation upon which taxes will be levied in 2015 is \$1,472,711,987. The tax levy by fund is as follows:

General Fund	\$ 36,817,800
Debt Service	<u>16,936,188</u>
Total	<u>\$ 53,753,988</u>

Property taxes collected by the Sebastian County Collector in June of 2015, but not released to the District until July of 2015 are required to be accrued and recognized as revenue as of June 30, 2015. This amount accrued totaled \$2,797,466.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

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

At June 30, 2015, the District had bank balances as follows:

	<u>BOOK VALUE</u>	<u>BANK VALUE</u>
Insured	\$ 500,000	\$ 500,000
Collateralized with U.S. Government and U.S. Government Agencies securities held by the pledging financial institution's agent in the District's name	<u>21,518,513</u>	<u>18,592,776</u>
Total	<u>\$ 22,018,513</u>	<u>\$ 19,092,776</u>

5. Inventories

Components of the June 30, 2015 inventories are as follows:

Maintenance supplies	\$ 127,326
Instructional supplies	488,645
Food and supplies	155,343
Fuel	<u>33,045</u>
Total	<u>\$ 804,359</u>

6. Changes in Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated				
Land	\$ 6,946,025	\$ 9,567	\$ -	\$ 6,955,592
Construction in progress	<u>12,023,306</u>	<u>8,035,102</u>	<u>12,023,306</u>	<u>8,035,102</u>
Total capital assets not being depreciated	<u>18,969,331</u>	<u>8,044,669</u>	<u>12,023,306</u>	<u>14,990,694</u>

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

6. Changes in Capital Assets (continued)

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Capital assets, being depreciated				
Land improvements	5,438,393	-	2,888	5,435,505
Buildings and improvements	170,381,967	15,201,725	-	185,583,692
Furniture, fixtures and equipment	37,311,765	1,992,805	852,032	38,452,538
Vehicles	6,963,533	340,793	230,997	7,073,329
Total capital assets, being depreciated	<u>220,095,658</u>	<u>17,535,323</u>	<u>1,085,917</u>	<u>236,545,064</u>
Less accumulated depreciation:				
Land improvements	2,208,746	197,522	2,887	2,403,381
Buildings and improvements	58,649,726	5,243,660	-	63,893,386
Furniture, fixtures and equipment	22,570,663	2,422,226	824,877	24,168,012
Vehicles	5,424,724	382,134	230,998	5,575,860
Total accumulated depreciation	<u>88,853,859</u>	<u>8,245,542</u>	<u>1,058,762</u>	<u>96,040,639</u>
Total capital assets, being depreciated, net	<u>131,241,799</u>	<u>9,289,781</u>	<u>27,155</u>	<u>140,504,425</u>
Governmental activities, capital assets, net	<u>\$ 150,211,130</u>	<u>\$ 17,334,450</u>	<u>\$ 12,050,461</u>	<u>\$ 155,495,119</u>

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

Instruction:	
Regular programs	\$ 415,121
Special education	4,181
Vocational education	62,335
Adult education	852
Compensatory education	234,889
Other instructional programs	51,500
Support services:	
Student	22,748
Instructional	388,834
General administration	3,944
School administration	26,624
Business	76,447
Operation and maintenance of plant	993,092
Student transportation	321,780
Central	2,932
Food service	82,362
Community services	4,048
Depreciation - unallocated	5,553,853
Total depreciation expense	<u>\$ 8,245,542</u>

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

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.

In January 2014, the District issued \$9,230,000 in general obligation bonds.

The bond proceeds were used toward the renovation of existing school facilities and the purchase of new equipment. 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, 2014:

	Balance July 1, 2014	Debt Additions	Debt Retirements	Balance June 30, 2015
General Obligation Bonds:				
Bond issue dated December 1, 2009	\$ 5,145,000	\$ -	\$ 425,000	\$ 4,720,000
Bond issue dated October 1, 2010	2,545,000	-	225,000	2,320,000
Bond issue dated November 1, 2010	7,025,000	-	340,000	6,685,000
Bond issue dated June 1, 2011	6,030,000	-	545,000	5,485,000
Bond issue dated May 1, 2012	4,760,000	-	435,000	4,325,000
Bond issue dated December 1, 2012	3,945,000	-	190,000	3,755,000
Bond issue dated September 1, 2013	9,140,000	-	-	9,140,000
Bond issue dated January 1, 2014	9,230,000	-	255,000	8,975,000
Total General Obligation Bonds	<u>47,820,000</u>	<u>-</u>	<u>2,415,000</u>	<u>45,405,000</u>
Other Long-term Debt				
September 1, 2005	627,342	-	-	627,342
Qualified Zone Academy Bonds dated October 2, 2007	1,911,385	-	203,202	1,708,183
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
Total Other Long-term Debt	<u>33,173,727</u>	<u>-</u>	<u>203,202</u>	<u>32,970,525</u>

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

7. Long-Term Debt (continued)

	Balance July 1, 2014	Debt Additions	Debt Retirements	Balance June 30, 2015
Other Long-term liabilities				
Compensated absences	4,797,208	176,002	190,213	4,782,997
Total	\$ 85,790,935	\$ 176,002	\$ 2,808,415	\$ 83,158,522

Annual debt service requirements to maturity are as follows:

	Total	Principal	Interest
2016	\$ 6,835,335	\$ 4,297,746	\$ 2,537,589
2017	7,013,336	4,525,006	2,488,330
2018	7,145,684	4,712,290	2,433,394
2019	7,156,039	4,784,600	2,371,439
2020	7,168,342	4,866,934	2,301,408
2021-2025	33,646,232	23,414,021	10,232,211
2026-2030	25,900,143	18,007,754	7,892,389
2031-2035	12,139,603	8,362,609	3,776,994
2036-2039	5,969,291	5,404,565	564,726
	\$ 112,974,005	\$ 78,375,525	\$ 34,598,480

A summary of each bond issue is as follows:

Date of Issue	Amount of Original Issue (\$)	Interest Rate Percent	Range of Payment Dues	Range of Annual Maturities (\$)
12/1/2009	6,980,000	2.00/3.750	8-2010/2-2024	365,000/625,000
10/1/2010	3,255,000	1.00/3.00	2-2011/2-2024	45,000/290,000
11/1/2010	8,000,000	2.00/3.625	6-2011/12-2030	300,000/520,000
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	320,312.50
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	49,614	12,570,000

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

8. Bond Discount Costs and Deferred Loss on Refunding

Bond discount costs incurred in connection with the issuance of the 2009, 2010, 2011, 2012, 2013 and 2014 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. Amortization of the bond discounts totaled \$44,883 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 \$296,527 is shown as deferred outflows on the statement of net assets and is amortized over the life of the new debt which ranges from 12 to 20 years. Amortization of the deferred loss totaled \$25,336 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 to add \$80,111,683 to net pension liability, and a corresponding reduction of unrestricted, undesignated net position as of June 30, 2014.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

10. Employee Retirement Systems and Plans (continued)

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, 2015 were \$12,778,714 and contributions for the year ended June 30, 2014 were \$12,336,181.

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 year ending June 30, 2014. 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.

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>.

Net Pension Liability

The collective Net Pension Liability was measured as of June 30, 2014, 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, 2015

10. Employee Retirement Systems and Plans (continued)

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, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010.

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, 2014, 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>
Domestic Equity	20%	4.7%
Global Equity	30%	5.0%
Fixed Income	20%	2.0%
Alternatives	5%	5.0%
Real Assets	15%	4.6%
Private Equity	10%	6.6%
Cash Equivalents	0%	1.2%
	<u>100%</u>	

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

10. Employee Retirement Systems and Plans (continued)

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. 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:

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:

Sensitivity of the Net Pension Liability to the Single Discount Rate

	1% Decrease	Current Rate	1% Increase
	7%	8%	9%
Net Pension Liability \$	4,696,376,842	\$ 2,625,006,279	\$ 882,285,198

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, 2015 and 2014 were \$12,494 and \$16,883, 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%

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

10. Employee Retirement Systems and Plans (continued)

Benefits Provided

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.

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 14.76% of compensation for the fiscal year ended June 30, 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>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability was measured as of June 30, 2014, 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, 2015

10. Employee Retirement Systems and Plans (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 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	23 years (14 years for District Judges New Plan/Paid Off Old Plan and 21 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Actuarial Assumption:	
Investment Rate of Return	7.75%
Salary Increases	3.75 – 10.35% including inflation (3.75% - 7.71% including inflation for District Judges)
Including	3.75%
Post-Retirement Cost-of-Living Increases	3% Annual Compounded Increase
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
Average Service Life of All Members	4.5972

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 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 target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015 are summarized in the table below:

Asset Allocation	Target	Long-Term Expected Real Rate of Return
Fixed Income	28%	1.3%
Domestic Equity	31%	5.4%
International Equity	21%	5.6%
Real Estate	10%	5.0%
Private Equity	7%	7.4%
Commodities	1%	2.3%
Cash	2%	0.0%
	<u>100%</u>	

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

10. Employee Retirement Systems and Plans (continued)

Discount Rate

A single discount rate of 7.75% 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 7.75%. 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.

11. Fund Balance Reporting

The District follows GASB 54 as part of its 2013-2014 & 2014-2015 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 \$804,359 and prepaid items totaling \$880,031 that are classified as nonspendable.

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.

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

11. Fund Balance Reporting (continued)

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 \$9,313,875 and represented \$5,398,842 in debt service and \$3,915,033 in capital projects. The restricted balance in capital projects includes \$1,876,525 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 \$6,502,877 of which \$5,802,877 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 \$431,523 for outstanding encumbrances.

Unassigned:

The unassigned fund balance for the General Fund is \$9,287,346.

Description	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service	Capital Projects		
Fund Balances:					
Nonspendable:					
Inventories	\$ 649,016	\$ -	\$ -	\$ 155,343	\$ 804,359
Prepaid Items	880,031	-	-	-	880,031
Restricted:					
Debt Service	-	5,398,842	-	-	5,398,842
Capital Projects:	-	-	2,038,508	-	2,038,508
Encumbrances	-	-	1,876,525	-	1,876,525
Assigned:					
School Operations:	-	-	-	5,371,354	5,371,354
Encumbrances	405,067	-	-	26,456	431,523
Insurance deductibles	200,000	-	-	-	200,000
Unemployment benefits	500,000	-	-	-	500,000
Unassigned	9,287,346	-	-	-	9,287,346
Total Fund Balance	<u>\$ 11,921,460</u>	<u>\$ 5,398,842</u>	<u>\$ 3,915,033</u>	<u>\$ 5,553,153</u>	<u>\$ 26,788,488</u>

FORT SMITH SCHOOL DISTRICT #100

Notes to Financial Statements

JUNE 30, 2015

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 \$1,364,567 for the year ended June 30, 2015.

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, 2015 through December 7, 2015, 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, 2015

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues			
Local property taxes	\$ 51,464,863	\$ 51,441,388	\$ (23,475)
Interest	45,000	76,379	31,379
Contributions	-	267,222	267,222
Insurance recoveries	-	46,995	46,995
Other local revenues	229,200	123,451	(105,749)
State assistance	57,403,500	57,318,784	(84,716)
Unrestricted federal aid	5,000	16,634	11,634
Total Revenues	109,147,563	109,290,853	143,290
Expenditures			
Current:			
Regular programs	49,968,400	48,101,087	1,867,313
Special education	7,358,432	7,055,088	303,344
Vocational education	2,858,957	2,857,083	1,874
Compensatory education	594,265	599,971	(5,706)
Other instructional programs	564,457	530,744	33,713
Support services	43,811,052	42,442,018	1,369,034
Capital outlay	1,662,577	1,209,190	453,387
Total Expenditures	106,818,140	102,795,181	4,022,959
Excess of Revenues Over (Under)			
Expenditures	2,329,423	6,495,672	4,166,249
Other Financing Sources (Uses)			
Indirect cost reimbursement	207,726	155,255	(52,471)
Operating transfers	(6,057,518)	(6,662,220)	(604,702)
Total Other Financing Sources (Uses)	(5,849,792)	(6,506,965)	(657,173)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses			
	(3,520,369)	(11,293)	3,509,076
Fund Balance at Beginning of Year	11,932,753	11,932,753	-
Fund Balance at End of Year	\$ 8,412,384	\$ 11,921,460	\$ 3,509,076

See accompanying notes and independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Required Supplement Information for Cost-Sharing Employer Plans

FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios Last Fiscal Year

	ARTRS at June 30, 2014	APERS at June 30, 2014	TOTAL at June 30, 2014
District's proportion of the net pension liability (asset)	3.0472%	0.00860725%	3.05580725%
District's proportionate share of the net pension liability	\$ 79,989,554	\$ 122,129	\$ 80,111,683
District's covered-employee payroll	\$ 16,566,592	\$ 24,265	\$ 16,590,857
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	482.84%	503.31%	482.87%
Plan fiduciary net position as a percentage of the total pension liability	84.98%	84.21%	

Schedule of Required Contributions Last Fiscal Year

	ARTRS at June 30, 2014	APERS at June 30, 2014	TOTAL at June 30, 2014
Contractually required contribution	\$ 12,335,997	\$ 22,644	\$ 12,358,641
Contributions in relation to the contractually required contribution	\$ (12,335,997)	\$ (22,644)	\$ (12,358,641)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 16,566,592	\$ 24,265	\$ 16,590,857
Contributions as a percentage of covered-employee payroll	74.46%	93.32%	74.49%

Note to Schedules:

Only the current fiscal year is presented because 10-year data is not yet available.

See accompanying notes and 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, 2015

Federal Grantor/Program Title	Agency or Pass-Through Entity	Federal CFDA Number	Federal Expen- ditures
U.S. Department of Education			
Special Ed Cluster			
E.S.E.A. Title VI, Grants to States	AR Department of Education	84.027	\$ 3,229,650
Special Education, Preschool	AR Department of Education	84.173A	133,040
Total Special Ed Cluster			3,362,690
Adult Education, Basic Grants to States	AR Department of Education	84.002A	253,373
Federal Adult Ed	AR Department of Education	84.002A	27,247
Adult Education - EL Civics	AR Department of Education	84.002A	27,871
Title I, Grants to Local Educational Agencies	AR Department of Education	84.010	5,331,222
Title I, Migrant Education	AR Department of Education	84.011	186,887
Career and Technical Education - Basic Grants to States	AR Department of Education	84.048	248,283
Indian Education, Grants to Local Education Agencies	Received directly	84.060A	143,024
Education For Homeless Children & Youth	AR Department of Education	84.196A	59,563
Twenty-First Century Community Learning Centers	AR Department of Education	84.287	228,392
English Language Acquisition Grants	AR Department of Education	84.365	372,952
Improving Teacher Quality State Grants	AR Department of Education	84.367	510,043
Total U.S. Department of Education			10,751,547
U.S. Department of Agriculture			
Child Nutrition Cluster			
School Breakfast Program - Cash Assistance	AR Department of Education	10.553	1,275,204
National School Lunch Program - Cash Assistance	AR Department of Education	10.555	4,437,003
National School Lunch Program - Non-Cash Assistance	AR Department of Human Services	10.555	570,118
Total Child Nutrition Cluster			6,282,325
Child and Adult Care Food Program - Cash Assistance	AR Department of Human Services	10.558	39,561
Total U.S. Department of Agriculture			6,321,886

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Schedule of Expenditures of Federal Awards

FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Program Title	Agency or Pass-Through Entity	Federal CFDA Number	Federal Expen- ditures
U.S. Department of Health and Human Services			
Child Care and Development Block Grant	AR Department of Human Services	93.575	392,820
Child Care Mandatory and Matching Funds	AR Department of Human Services	93.596	102,116
Total U.S. Department of Health and Human Services			494,936
U.S. Department of Army			
ROTC	Received directly	12.001	54,023
Total U.S. Department of Army			54,023
Total Federal Awards			\$ 17,622,392

Notes to Schedule:

1. This schedule includes the federal awards activity of Fort Smith School District #100 and is presented on the modified-accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, Fort Smith Schhol District #100 provided federal awards to subrecipients as follows:

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

SUPPLEMENTAL DISCLOSURE OF GOVERNMENTAL ASSISTANCE INFORMATION

Title XIX - Medicaid	
Medical Assistance Program (MEDICAID CATASTROPHIC)	\$ <u>180,215</u>
Total Medicaid	\$ <u><u>180,215</u></u>

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Schedule of Expenditures of State Awards

FOR THE YEAR ENDED JUNE 30, 2015

Grantor Agency/Program Title	State Revenues	State Expenditures
Arkansas Department of Education on behalf of the Arkansas Early Childhood Commission Arkansas Better Chance	\$ 1,454,214	\$ 1,454,214
Total Expenditures of State Awards	\$ 1,454,214	\$ 1,454,214

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, 2015

	<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	\$ 3,001	\$ 16,228	\$ 29	\$ 1,456	\$ 595	\$ 21,308
Barling	6,615	23,124	139	2,304	369	32,552
Beard	6,402	21,878	134	1,199	362	29,975
Bonneville	4,264	16,284	35	395	360	21,337
Carnall	5,281	10,266	319	3,523	353	19,741
Cavanaugh	6,856	19,011	90	1,039	297	27,293
Cook	10,334	43,146	195	1,194	575	55,444
Euper Lane	6,774	25,372	118	1,417	468	34,149
Fairview	7,829	22,551	136	2,552	407	33,475
Howard	1,224	4,033	27	1,115	55	6,454
Morrison	1,746	5,193	108	1,749	318	9,114
Orr	7,013	18,219	17	978	383	26,610
Pike	1,454	7,221	405	1,085	496	10,659
Spradling	1,849	5,815	154	2,653	8	10,478
Sunnymede	3,195	13,201	387	4,410	143	21,336
Sutton	3,023	11,695	5	978	49	15,749
Tilles	1,838	4,162	506	963	79	7,549
Trusty	1,743	5,007	48	1,621	84	8,502
Woods	6,716	40,285	21	2,338	512	49,871
Belle Point	583	894	468	1,538	8	3,491
Chaffin	6,041	31,428	49	1,658	61,722	100,898
Darby	969	9,433	242	4,981	13,138	28,763
Kimmons	3,121	19,467	43	4,520	27,726	54,876
Ramsey	5,643	38,227	161	4,155	90,257	138,442
Northside	2,622	17,806	152	1,441	61,696	83,717
Southside	5,944	21,903	322	4,568	73,576	106,312
Totals	\$ 112,078	\$ 451,849	\$ 4,307	\$ 55,828	\$ 334,034	\$ 958,097

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Schedule of School Breakfasts Served

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Student Free</u>	<u>Student Reduced</u>	<u>Student Paid</u>	<u>Adult Paid</u>	<u>Total</u>
Ballman	10,158	1,541	2,031	12	13,742
Barling	20,990	4,668	4,171	61	29,890
Beard	14,047	1,851	4,673	58	20,629
Bonneville	16,310	2,722	2,758	14	21,804
Carnall	24,873	3,162	3,464	124	31,623
Cavanaugh	11,846	2,362	4,918	39	19,165
Cook	12,853	3,875	7,337	86	24,151
Euper Lane	19,824	1,684	5,015	52	26,575
Fairview	39,895	5,925	4,840	49	50,709
Howard	26,413	1,980	504	12	28,909
Morrison	24,413	984	1,161	47	26,605
Orr	19,004	3,890	4,676	7	27,577
Pike	37,910	1,534	789	98	40,331
Spradling	36,548	2,535	871	14	39,968
Sunnymede	57,551	1,883	2,104	46	61,584
Sutton	31,751	3,109	1,672	2	36,534
Tilles	35,625	2,240	921	174	38,960
Trusty	28,006	621	1,244	9	29,880
Woods	6,741	1,657	4,975	9	13,382
Belle Point	8,349	613	319	192	9,473
Chaffin	10,892	2,319	4,276	9	17,496
Darby	18,576	1,033	527	21	20,157
Kimmons	34,714	2,577	1,878	6	39,175
Ramsey	14,150	2,380	3,943	7	20,480
Northside	26,015	2,027	1,611	34	29,687
Southside	10,318	2,516	4,151	22	17,007
Totals	597,772	61,688	74,829	1,204	735,493

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Schedule of School Lunches Served

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Student Free</u>	<u>Student Reduced</u>	<u>Student Paid</u>	<u>Adult Paid</u>	<u>Total</u>
Ballman	30,094	3,856	6,929	261	41,140
Barling	39,596	7,741	8,850	575	56,762
Beard	23,945	3,978	9,187	320	37,430
Bonneville	29,359	6,187	6,361	96	42,003
Carnall	37,283	4,471	4,137	872	46,763
Cavanaugh	17,542	4,162	8,112	286	30,102
Cook	21,341	6,625	18,117	331	46,414
Euper Lane	30,122	3,382	10,947	393	44,844
Fairview	68,861	9,721	8,910	704	88,196
Howard	53,269	4,341	1,397	293	59,300
Morrison	43,192	1,524	2,274	469	47,459
Orr	32,093	7,526	7,241	270	47,130
Pike	83,794	4,709	2,799	223	91,525
Spradling	69,719	5,447	2,071	689	77,926
Sunnymede	103,133	6,055	5,462	1,041	115,691
Sutton	80,854	7,831	4,248	276	93,209
Tilles	66,197	3,769	2,017	211	72,194
Trusty	50,869	1,661	2,426	449	55,405
Woods	19,761	5,116	17,644	450	42,971
Belle Point	10,368	598	249	445	11,660
Chaffin	31,768	7,058	10,000	303	49,129
Darby	72,688	5,443	2,956	1,201	82,288
Kimmons	91,780	7,647	5,757	1,095	106,279
Ramsey	40,290	8,058	13,972	605	62,925
Northside	107,850	11,547	5,537	232	125,166
Southside	31,478	7,056	7,778	761	47,073
Totals	1,287,246	145,509	175,378	12,851	1,620,984
Total Breakfasts and Lunches	1,885,018	207,197	250,207	14,055	2,356,477

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Schedule of Findings and Questioned Costs

FOR THE YEAR ENDED JUNE 30, 2015

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 with Section 510(a) of OMB Circular A-133?

yes no

Identification of major programs:

CFDA Number(s)
10.553, 10.555 & 10.558

Name of Federal Program or Cluster
Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$543,993

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.

See independent auditor's report.

FORT SMITH SCHOOL DISTRICT #100

Federal Award Programs - Schedule of Prior Audit Findings

FOR THE YEAR ENDED JUNE 30, 2015

There were no prior audit findings for the year ended June 30, 2014.

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***

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, 2015**, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2015.

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.

4200 Jenny Lind Road, Ste B
Fort Smith, Arkansas 72901
Ph: 479.649.0888 email: marcl@selectcpa.com
www.selectcpa.com

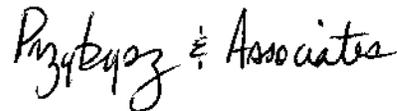
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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
December 7, 2015



Independent Auditor's Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance Required by OMB Circular A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2015.

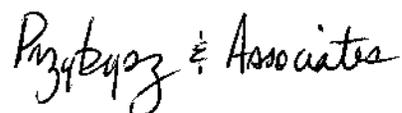
Report on Internal Control Over Compliance

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
December 7, 2015



Independent Auditor's Report On Compliance With Arkansas State Requirements

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

We have examined management's assertions, included in its representation letter dated December 7, 2015, 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, 2015**. 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, 2015**, 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
December 7, 2015

4200 Jenny Lind Road, Ste B
Fort Smith, Arkansas 72901
Ph: 479.649.0888 email: marcl@selectcpa.com
www.selectcpa.com

FORT SMITH SCHOOL DISTRICT #100

Supplemental Data Sheet As Required By DHS

JUNE 30, 2015

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. Benny Gooden

Contact Person: Charles Warren, CPA

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

Lead Auditor: Marc Lux, CPA