

**FAYETTEVILLE SCHOOL DISTRICT NO. 1  
WASHINGTON COUNTY, ARKANSAS**

**REGULATORY BASIS FINANCIAL  
STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2015**

**with**

**REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

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# Hudson Cisne & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education  
Fayetteville School District No. 1  
Fayetteville, Arkansas

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

We have audited the accompanying financial statements of each major governmental fund, and the aggregate remaining fund information of the Fayetteville School District No. 1 (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 regulatory basis 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 financial reporting practices prescribed or permitted by Arkansas Code, which is described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are from material misstatement, whether due to fraud or error.

### **Auditors' 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.

**audit**  
**consulting**  
**tax**

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1, the District has prepared the financial statements using financial reporting practices prescribed or permitted by Arkansas Code, which is a basis of accounting other than from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2015, and the respective changes in financial position for the year then ended. Further, the District has not presented a management’s discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

### **Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the major governmental fund and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position and budgetary results for the year then ended, on the basis of accounting described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s regulatory basis financial statements. The schedule of capital assets, schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of state assistance are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements.

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

To the Board of Education  
Page Three

The schedule of capital assets and supplemental data sheet as required by Arkansas Department of Human Services Audit Guidelines Section IX-C has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2016, 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 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.

Hudson, Cisne & Co, LLP

February 17, 2016  
Little Rock, Arkansas

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## BALANCE SHEET - REGULATORY BASIS

JUNE 30, 2015

	Governmental Funds			
	Major			Fiduciary fund types
	General fund	Special revenue fund	Other governmental fund	
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 14,288,781	\$ 740,972	\$ 9,064,332	\$ 1,788,020
Receivables:				
Accounts receivable	120,590	703,963	-	-
Other	14,731	-	-	-
Due from other funds	782,073	-	-	-
Restricted assets:				
Assets held in trust	-	-	24,171,019	-
	<u>\$ 15,206,175</u>	<u>\$ 1,444,935</u>	<u>\$ 33,235,351</u>	<u>\$ 1,788,020</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 462,016	\$ -	\$ 4,369,092	\$ -
Accrued expenses	1,797,712	-	-	-
Due to other funds	-	782,073	-	-
Due to student/other groups	-	-	-	1,788,020
Total liabilities	<u>2,259,728</u>	<u>782,073</u>	<u>4,369,092</u>	<u>1,788,020</u>
<b>Fund balances:</b>				
Restricted:				
Capital projects	-	-	-	-
Federal programs	-	662,862	-	-
State programs	1,309,712	-	-	-
Debt service	-	-	24,171,019	-
Assigned:				
Capital projects	-	-	4,695,240	-
Unassigned	11,636,735	-	-	-
Total fund balances	<u>12,946,447</u>	<u>662,862</u>	<u>28,866,259</u>	<u>-</u>
	<u>\$ 15,206,175</u>	<u>\$ 1,444,935</u>	<u>\$ 33,235,351</u>	<u>\$ 1,788,020</u>

See accompanying notes.

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

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

YEAR ENDED JUNE 30, 2015

	Major		Other governmental funds
	General fund	Special revenue fund	
<b>REVENUES</b>			
Property taxes	\$ 64,017,058	\$ -	\$ -
Food services	-	1,154,197	-
Investment income (loss)	37,585	-	(177,148)
Other local revenues	668,328	-	-
State revenues	32,837,494	26,844	-
Federal revenues	-	8,011,903	-
	97,560,465	9,192,944	(177,148)
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	49,950,635	2,585,521	955
Support services	31,142,970	2,577,841	261,266
Non-instructional services	534,475	4,190,703	-
<b>Capital outlay</b>	436,794	22,641	12,074,507
<b>Debt service:</b>			
Principal	-	-	2,902,421
Interest	-	-	4,050,968
Paying agent fees	-	-	12,244
	82,064,874	9,376,706	19,302,361
<b>Excess of revenues over (under) expenditures</b>	15,495,591	(183,762)	(19,479,509)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from refunding bond issuance	-	-	24,214,348
Payment to refunding agent	-	-	(23,350,000)
Bond issuance costs	-	-	(378,820)
Program funding return	(7,277)	-	-
Operating transfers, net	(13,170,260)	50,037	13,120,223
	(13,177,537)	50,037	13,605,751
<b>Net change in fund balances</b>	2,318,054	(133,725)	(5,873,758)
<b>Fund balances - beginning of year</b>	10,628,393	796,587	34,740,017
<b>Fund balances - end of year</b>	\$ 12,946,447	\$ 662,862	\$ 28,866,259

See accompanying notes.

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS

YEAR ENDED JUNE 30, 2015

	<b>General Fund</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Property taxes	\$ 61,363,190	\$ 64,017,058	\$ 2,653,868
Food services	-	-	-
Investment income (loss)	-	37,585	37,585
Other local revenues	643,200	668,328	25,128
State revenues	31,667,599	32,837,494	1,169,895
Federal revenues	-	-	-
	<u>93,673,989</u>	<u>97,560,465</u>	<u>3,886,476</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
Instruction	49,192,188	49,950,635	(758,447)
Support services	29,696,000	31,142,970	(1,446,970)
Non-instructional services	-	534,475	(534,475)
<b>Capital outlay</b>	539,470	436,794	102,676
	<u>79,427,658</u>	<u>82,064,874</u>	<u>(2,637,216)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	14,246,331	15,495,591	1,249,260
<b>OTHER FINANCING SOURCES (USES)</b>			
Program funding return	-	(7,277)	(7,277)
Operating transfers, net	(14,649,661)	(13,170,260)	1,479,401
Total other financing sources (uses)	<u>(14,649,661)</u>	<u>(13,177,537)</u>	<u>1,472,124</u>
<b>Net change in fund balances</b>	<u>\$ (403,330)</u>	<u>\$ 2,318,054</u>	<u>\$ 2,721,384</u>

See accompanying notes.



**Special Revenue Fund**

<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
\$ -	\$ -	\$ -
1,280,000	1,154,197	(125,803)
1,000	-	(1,000)
-	-	-
28,000	26,844	(1,156)
<u>8,448,255</u>	<u>8,011,903</u>	<u>(436,352)</u>
9,757,255	9,192,944	(564,311)
2,442,705	2,585,521	(142,816)
2,869,531	2,577,841	291,690
3,805,393	4,190,703	(385,310)
1,344	22,641	(21,297)
<u>9,118,973</u>	<u>9,376,706</u>	<u>(257,733)</u>
638,282	(183,762)	(822,044)
-	-	-
<u>-</u>	<u>50,037</u>	<u>50,037</u>
<u>-</u>	<u>50,037</u>	<u>50,037</u>
<u>\$ 638,282</u>	<u>\$ (133,725)</u>	<u>\$ (772,007)</u>

**FAYETTEVILLE SCHOOL DISTRICT NO. 1****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****Note 1: Summary of significant accounting policies****Reporting entity**

The Board of Education, a seven (7) member group, is the level of government which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Fayetteville School District ("District"). There are no component units.

**Fund accounting**

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

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

**Special Revenue Fund** - The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes transfers from the general fund to supplement such programs.

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

**Capital Projects Fund** - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**Debt Service Fund** - The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Fiduciary Fund types include the following:

**Fiduciary Funds** - Account for assets held by the District in a trustee capacity or as an agent on behalf of others and are held in a purely custodial capacity (assets equal liabilities). Trust funds account for assets held by the District under the terms of a formal trust agreement.

The *private purpose (trust fund)* accounts for activities that are not District programs, but are programs sponsored by private districts or other governments. Although the District serves as fiscal agent, the funds received and held under these programs are not available to support the District's activities and programs, but are received and held for the benefit of individuals, private districts or other governments participating in the sponsored programs. The programs accounted for within this are expendable trust funds.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

**FAYETTEVILLE SCHOOL DISTRICT NO. 1****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****Note 1: Summary of significant accounting policies (continued)****Measurement focus and basis of accounting (continued)**

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

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

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

**Revenue recognition policies**

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

**Capital assets**

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

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **Note 1: Summary of significant accounting policies (continued)**

#### **Capital assets (continued)**

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

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Building	50
Equipment	5-20

#### **Property taxes**

Property taxes are levied in November based on property assessments made between January 1 and May 31 and are an enforceable lien on January 1 for real property and June 1 for personal property. The tax records are opened on the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year.

Arkansas Code § 6-20-401 allows, but does not mandate, the District to accrue the difference between the amount of the 2014 calendar year taxes collected by June 30, 2015, and 24% of the proceeds of the local taxes that are not pledged to secure bonded indebtedness. The District elected not to accrue property taxes or the option to accrue property taxes was not applicable because the amount of property taxes collected by June 30, 2015, equaled or exceeded the 24% calculation. In the current year, the District collected approximately \$14,500,000 more than the stated 24% pullback amount and has recorded this amount in its current year revenues.

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

#### **Fund balance classifications**

Under GASB 54, fund balance is reported under the following five classifications:

1. **Nonspendable Fund Balance** - includes amounts that are not in a spendable form or are required to be maintained intact. The District does not have any nonspendable fund balance at year end.
2. **Restricted Fund Balance** - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The Restricted for Capital Projects, Restricted for State Programs and Restricted for Federal Programs balances reflect amounts restricted for specific state and federal programs as mandated by respective state and federal grant or funding agreements. The Debt Service Fund Balance reflects amounts for future debt payments.

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### **Note 1: Summary of significant accounting policies (continued)**

#### **Fund balance classifications (continued)**

3. **Committed Fund Balance** - includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (the Board of Education) and does not lapse at year end. The District does not have any committed fund balance at year end.
4. **Assigned Fund Balance** - includes amounts intended for a specific purpose by the Board of Education or by a District official that has been delegated authority to assign amounts. The District has assigned portions of its fund balance for construction or other capital outlay projects.
5. **Unassigned Fund Balance** - includes any remaining fund balance that has not been reported in any other classification. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

For the purposes of fund balance classification, the District's policy is to have expenditures spent from restricted fund balance first, followed in order by committed fund balance (if any), assigned fund balance (if any) and lastly unassigned fund balance.

#### **Budget and budgetary accounting**

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

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

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

### **Note 2: Cash deposits with financial institutions**

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

	<b><u>Carrying amount</u></b>	<b><u>Bank balance</u></b>
Insured (FDIC)	\$ 2,035,272	\$ 2,035,272
Collateralized - held by pledging bank or pledging bank's trust department in the District's name	<u>48,017,852</u>	<u>47,694,943</u>
Total deposits	<u>\$ 50,053,124</u>	<u>\$ 49,730,215</u>

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### Note 3: Assets held in trust

Assets held in trust include funds held in escrow totaling \$24,171,019 that includes sinking fund deposits for Qualified Zone Academy Bonds that are required to be used for future principal payments.

### Note 4: Accounts receivable

The account receivable balance of \$824,553 is comprised of the following at June 30, 2015:

<u>Class of receivable</u>	<u>General fund</u>	<u>Special revenue fund</u>	<u>Total</u>
Due from other governments	\$ 120,590	\$ 703,963	\$ 824,553

### Note 5: Commitments

#### Construction commitments

The District was contractually obligated for three construction contracts with remaining contract balances of approximately \$4,925,000 at June 30, 2015.

#### Long-term debt issued and outstanding

The District is presently paying on the following long-term debt:

<u>Date of issue</u>	<u>Date of final maturity</u>	<u>Rate of interest</u>	<u>Amount authorized and issued</u>	<u>Debt outstanding June 30, 2015</u>	<u>Maturities to June 30, 2015</u>
Bonds payable:					
11/1/2002	11/1/2016	0.00%	755,000	755,000	-
9/1/2003	9/1/2018	0.00%	1,059,024	1,059,024	-
10/5/2006	10/5/2021	0.00%	1,217,183	1,217,183	-
12/27/2007	12/27/2021	1.10%	950,000	493,179	456,821
1/1/2010	6/1/2030	2.00% - 4.25%	23,630,000	-	23,630,000
2/9/2010	2/9/2027	0.00% - 2.15%	52,305,000	52,305,000	-
10/1/2010	6/1/2030	2.00% - 3.50%	3,570,000	2,970,000	600,000
11/10/2010	11/10/2029	0.00% - 5.00%	31,460,000	31,460,000	-
8/1/2011	6/1/2030	2.00% - 3.90%	8,400,000	6,930,000	1,470,000
9/29/2011	9/1/2028	0.00% - 4.30%	1,140,000	1,140,000	-
1/1/2012	6/1/2030	1.50% - 2.90%	7,545,000	6,650,000	895,000
8/1/2012	6/1/2035	1.00% - 3.05%	2,435,000	2,170,000	265,000
8/8/2012	6/1/2034	3.75%	1,920,000	1,920,000	-
11/1/2012	6/1/2035	4.00%	1,290,000	1,200,000	90,000
1/1/2013	6/1/2030	1.00% - 1.75%	6,140,000	6,140,000	-

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### Note 5: Commitments (continued)

#### Long-term debt issued and outstanding (continued)

<u>Date of issue</u>	<u>Date of final maturity</u>	<u>Rate of interest</u>	<u>Amount authorized and issued</u>	<u>Debt outstanding June 30, 2015</u>	<u>Maturities to June 30, 2015</u>
Bonds payable:					
12/1/2013	6/1/2035	2.00% - 4.125%	3,500,000	3,205,000	295,000
4/1/2014	6/1/2030	2.00% - 3.25%	8,085,000	7,945,000	140,000
4/1/2014	6/1/2030	3.00% - 3.25%	8,650,000	8,445,000	205,000
4/1/2014	6/1/2020	2.00%	5,905,000	4,515,000	1,390,000
5/1/2014	6/1/2035	2.00% - 3.75%	13,605,000	13,145,000	460,000
3/1/2015	6/1/2030	2.00% - 3.00%	23,790,000	23,790,000	-
Totals			<u>\$ 207,351,207</u>	<u>\$ 177,454,386</u>	<u>\$ 29,896,821</u>

Changes in long-term debt:

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Issued</u>	<u>Retired/Refunded</u>	<u>Balance June 30, 2015</u>
Bonds payable				
General obligation bonds	\$ 72,480,000	\$ 23,790,000	\$ 25,575,000	\$ 70,695,000
QZAB's	6,741,808	-	97,422	6,644,386
QSCB's	<u>100,695,000</u>	<u>-</u>	<u>580,000</u>	<u>100,115,000</u>
Totals	<u>\$ 179,916,808</u>	<u>\$ 23,790,000</u>	<u>\$ 26,252,422</u>	<u>\$ 177,454,386</u>

Total long-term debt principal and interest payments are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2016	\$ 3,793,164	\$ 5,459,323	\$ 5,089,808	\$ 14,342,295
2017	5,173,913	5,210,586	5,089,808	15,474,307
2018	4,794,671	5,124,278	5,035,879	14,954,828
2019	5,964,461	5,027,037	4,928,021	15,919,519
2020	5,001,212	4,925,430	4,740,879	14,667,521
2021 - 2025	28,176,965	22,693,120	24,245,339	75,115,424
2026 - 2030	114,925,000	14,445,186	(46,423,453)	82,946,733
2031 - 2035	7,105,000	1,428,731	(439,087)	8,094,644
2036 - 2037	<u>2,520,000</u>	<u>-</u>	<u>(2,267,194)</u>	<u>252,806</u>
Totals	<u>\$177,454,386</u>	<u>\$ 64,313,691</u>	<u>\$ -</u>	<u>\$ 241,768,077</u>

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### Note 6: Operating leases

At June 30, 2015, the District was in a leasing arrangement for certain office equipment. Future minimum lease payments under this noncancelable lease are as follows:

2016	\$	77,498
2017		77,498
2018		77,498
2019		77,498
2020		77,498
	\$	<u>387,490</u>

Rental expense associated with this lease was approximately \$256,000 for the year ending June 30, 2015.

### Note 7: Accounts payable

The accounts payable balance of \$4,831,108 at June 30, 2015 is as follows:

	<u>General fund</u>	<u>Capital projects fund</u>	<u>Total</u>
Vendor payables	\$ 462,016	\$ 4,369,092	\$ 4,831,108

### Note 8: Interfund transfers

The following details the transfers between governmental funds for operating purposes:

	<u>General fund</u>	<u>Capital projects fund</u>	<u>Debt service fund</u>	<u>Special revenue fund</u>	<u>Total</u>
Transfers in	\$ 117,434,004	\$ 6,718,788	\$ 11,140,224	\$ 376,627	\$ 135,669,643
Transfers out	<u>(130,604,264)</u>	<u>(185,076)</u>	<u>(4,553,713)</u>	<u>(326,590)</u>	<u>(135,669,643)</u>
	<u>\$ (13,170,260)</u>	<u>\$ 6,533,712</u>	<u>\$ 6,586,511</u>	<u>\$ 50,037</u>	<u>\$ -</u>

### Note 9: Retirement plans

#### Arkansas Teacher Retirement System

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



**FAYETTEVILLE SCHOOL DISTRICT NO. 1****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****Note 9: Retirement plans (continued)****Arkansas Teacher Retirement System (continued)**

Funding policy: ATRS has contributory and non-contributory plans. Contributory members are required by law to contribute 6% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current employer rate is 4%.

The District's contributions to ATRS for nonfederally-funded employees for the years ended June 30, 2015, 2014, and 2013 were \$8,055,534, \$8,248,085, and \$11,245,228 respectively. The District's contributions to ATRS for federally-funded employees for the years ended June 30, 2015, 2014, and 2013 were \$441,632, \$470,316, and \$522,248, respectively, equal to the required contributions for each year.

**Net Pension Liability**

The Arkansas Department of Education has stipulated that, under the regulatory basis of accounting, the requirements of Governmental Accounting Standards Board Statement No. 68 would be limited to disclosure of the District's proportionate share of the collective net pension liability. The District's proportionate share of the collective net pension liability at June 30, 2014 (actuarial valuation date and measurement date) was \$4,269,802.

**Arkansas Public Employees Retirement System**

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

Funding policy: APERS has contributory and non-contributory plans. Contributory members are required by law to contribute 5% of their salary. Each participating employer is required by law to contribute at a rate established by the Arkansas General Assembly. The current statutory employer rate is 4% of annual covered payroll. The District's contributions to APERS for the years ended June 30, 2015, 2014 and 2013 was \$9,204, \$13,862, and \$16,852, respectively, equal to the required contributions for each year.

**Note 10: Risk management**

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

The District carries commercial insurance for coverage of buildings' contents, board liability, theft, student accidents, bus drivers, and business trip accidental death and dismemberment. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage from the prior year in the major categories of risk.

**FAYETTEVILLE SCHOOL DISTRICT NO. 1****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015****Note 10: Risk management (continued)**

The District is a member of the Arkansas School Board Association self-insurance program, a public entity risk pool currently operating a common risk management and insurance program for its members. The fund was created by members to formulate, develop and administer a program of self-funding for the fund's membership, obtain lower costs for Workmen's Compensation Coverage and develop a comprehensive loss control program. The District pays an annual premium to the fund for its Workmen's Compensation Coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reissue through commercial carriers for claims in excess of specified stop loss amounts.

**Note 11: Litigation and contingencies**

The District participates in federally assisted grant programs. The District is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**Note 12: On behalf payments**

During the year ended June 30, 2015, health insurance premiums of \$1,770,289 were paid by the Arkansas Department of Education to the Arkansas Employee Benefits Division on behalf of District employees.

**Note 13: Subsequent events**

The District has evaluated all subsequent events for potential recognition and disclosure through February 17, 2016, the date these financial statements were available to be issued.

## **OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

**FAYETTEVILLE SCHOOL DISTRICT NO. 1**

**SCHEDULE OF CAPITAL ASSETS**

**YEAR ENDED JUNE 30, 2015**

**(Unaudited)**

**Nondepreciable capital assets:**

Land	\$ 12,068,498
Construction in progress	110,917
Total nondepreciable capital assets	<u>12,179,415</u>

**Depreciable capital assets:**

Buildings and improvements	257,351,331
Furniture, equipment, vehicles and buses	21,008,176
Total depreciable capital assets	<u>278,359,507</u>

**Less accumulated depreciation for:**

Buildings and improvements	58,768,898
Furniture, equipment, vehicles and buses	18,458,272
Total accumulated depreciation	<u>77,227,170</u>

Total depreciable capital assets, net	<u>201,132,337</u>
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<b>Capital assets, net</b>	<b><u>\$ 213,311,752</u></b>
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**INDEPENDENT AUDITORS' 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 Board of Education  
Fayetteville School District No. 1  
Fayetteville, 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 each major governmental fund and the aggregate remaining fund information of the Fayetteville School District No. 1 (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 regulatory basis financial statements, and have issued our report thereon dated February 17, 2016.

We issued an adverse opinion because the District prepared the financial statements in conformity with accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position thereof, and the budgetary results for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

**Internal control over financial reporting**

In planning and performing our audit 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.

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To the Board of Education  
Page Two

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

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 regulatory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and 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 test 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 District'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.

Hudson, Cisne & Co, LLP

Hudson, Cisne & Co. LLP  
Little Rock, Arkansas  
February 17, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Education  
Fayetteville School District No. 1  
Fayetteville, Arkansas

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

We have audited the compliance of the Fayetteville School District No. 1 (the "District") 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.

***Auditors' 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, *Audit 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 on the Districts' compliance.

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To the Board of Education  
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### ***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 District 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.

*Hudson, Cisne & Co, LLP*

Hudson, Cisne & Co. LLP  
Little Rock, Arkansas  
February 17, 2016



**FAYETTEVILLE SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2015**

<b>Federal grant/pass-through grantor/program title</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
<b>CHILD NUTRITION CLUSTER</b>		
<b><u>U.S. Department of Agriculture</u></b>		
<b>Passed through Arkansas Department of Education:</b>		
School Breakfast Program - Cash Assistance	10.553	\$ 592,306
After School Snack Program - Cash Assistance	10.555	40,013
National School Lunch Program - Cash Assistance	10.555	1,707,344
Performance based reimbursement from child nutrition	10.555	<u>50,003</u>
Total Arkansas Department of Education		2,389,666
<b>Passed through Arkansas Department of Human Services:</b>		
Summer food program	10.559	27,183
National School Lunch Program - Non-Cash Assistance	10.555	<u>227,485</u>
Total Arkansas Department of Human Services		<u>254,668</u>
Total Child Nutrition Cluster		<u>2,644,334</u>
<b>OTHER PROGRAMS:</b>		
<b><u>U.S. Department of Education</u></b>		
<b>Direct Award:</b>		
Fund for the Improvement of Education	84.215	50,038
<b>Passed through Arkansas Department of Education:</b>		
Title I, Part A	84.010	2,128,486
Title VI, Part B - Special Education Grants to States	84.027	1,887,745
Education for Homeless Children and Youth	84.196	40,072
Title IV-B, 21st Century Community Learning Centers	84.287	116,305
Title III, English Language Acquisition	84.365	90,718
Title II, Part A - Improving Teacher Quality	84.367	185,305
Title IV, Part A	84.186	<u>325</u>
Total Arkansas Department of Education		<u>4,448,956</u>
<b>Passed through Arkansas Department of Career Education:</b>		
Adult Education State Grant Program	84.002	196,790
Vocational Education - Basic Grants	84.048	<u>107,129</u>
Total Arkansas Department of Career Education		<u>303,919</u>
Total U.S. Department of Education		<u>4,802,913</u>

# FAYETTEVILLE SCHOOL DISTRICT NO. 1

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

<u>Federal grant/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
<b>OTHER PROGRAMS (continued):</b>		
<b><u>U.S. Department of Agriculture</u></b>		
<b>Passed through Arkansas Department of Education:</b>		
CN Equipment Grant Funds	10.579	1,942
<b>Passed through Arkansas Department of Human Services:</b>		
Child and Adult Care Food Program	10.558	<u>99,081</u>
Total U.S. Department of Agriculture		<u>101,023</u>
<b><u>U.S. Department of Health and Human Services</u></b>		
<b>Passed through Arkansas Department of Human Services:</b>		
Child Care and Development Block Grant	93.575	<u>1,401</u>
Total Other Programs		<u>4,905,337</u>
Total Expenditures of Federal Awards		<u>\$ 7,549,671</u>

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. This schedule includes the federal awards activities of Fayetteville School District #1 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, 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. The District received \$569,834 in Medicaid related funding from the Arkansas Department of Human Service and the U.S. Department of Education. Medicaid reimbursements are defined as contracts for services and not federal awards; therefore, such reimbursements are not covered by the reporting requirements of OMB Circular A-133.
3. Non-monetary assistance is reported at the approximate values as provided by the Arkansas Department of Human Services.

**FAYETTEVILLE SCHOOL DISTRICT NO. 1****SCHEDULE OF STATE ASSISTANCE****YEAR ENDED JUNE 30, 2015****Arkansas Department of Education**

State Foundation Funding	\$ 26,613,680
Student Growth Funding	457,106
General Facilities Funding	5,795
Professional Development Funding	248,804
Limited English Proficiency Allocation	237,433
Food Service State Matching	26,844
Broadband Facilities Matching Grant Program	90,820
Special Education - Catastrophic Occurrences	377,421
Alternative Learning	420,586
National School Lunch Student Funding	2,004,788
Arkansas Better Chance Program	583,200
Child Supervision Extended School Year Funding	35,668
Children without Disabilities - Residential Treatment	139,778
Children with Disabilities - Residential Treatment	37,133
Wellness Center	80,000
Tobacco Excise Tax	30,000
PQE Mentoring	58,000
School Recognition Awards	369,346
National Board of Professional Teaching	18,000
Gifted & Talented - Advance Placement	45,850
College Prep Enrichment Program	54,061
AR Game and Fish	4,400
Career New Program Start-up	47,672
Residential Centers / Juvenile Detention	217,995
Residential Treatment	46,591
Total Arkansas Department of Education	<u>32,250,971</u>

**Arkansas Department of Workforce Education**

Adult Basic Education	555,408
Short Term Adult Skill Training	-
Total Arkansas Department of Workforce Education	<u>555,408</u>

**Arkansas Department of Career Education**

SVAC Funding	<u>57,959</u>
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Total State Assistance	<u>\$ 32,864,338</u>
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**FAYETTEVILLE SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2015**

**A. SUMMARY OF AUDITORS' RESULTS**

1. Our report expresses an adverse opinion based on generally accepted accounting principles and an unmodified opinion based on a regulatory basis of accounting on the basic financial statements of Fayetteville School District No. 1.

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

Significant deficiency(ies) identified?  Yes  No

Material weakness(es) identified?  Yes  No

3. Noncompliance considered material to the financial statements was disclosed by the audit?  Yes  No

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

Significant deficiency(ies) identified?  Yes  No

Material weakness(es) identified?  Yes  No

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

Unmodified       Modified       Adverse       Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?  Yes  No

7. The Auditee's major programs were:

Cluster/Program	CFDA Number(s)
• Title I, Part A	84.010
• Title VI, Part B – Special Education Grants to States	84.027

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

**FAYETTEVILLE SCHOOL DISTRICT NO. 1**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2015**

**A. SUMMARY OF AUDITORS' RESULTS (CONTINUED)**

9. The Auditee qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS AUDIT**

None

**D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**2014-001 SIGNIFICANT DEFICIENCY**

*Condition:* Effectively designed controls over payroll were not in place to prevent or detect and correct the miscoding of payroll between federal and non-federal job duties.

*Recommendation:* We recommend that the District structure an internal control system capable of preventing and /or detecting payroll errors in federally funded programs.

*Current Status:* The recommendation was implemented in 2014. No similar findings were noted in the 2015 audit.



**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH ARKANSAS STATE REQUIREMENTS**

To the Board of Education  
Fayetteville School District No. 1  
Fayetteville, Arkansas

We have examined management's assertions that Fayetteville School District No. 1 substantially complied with the requirements of Arkansas Code Annotated 6-1-101 and the applicable laws and regulations including those listed in the accompanying schedule of statutes required to be addressed by the Arkansas Department of Education during the year ended June 30, 2015. 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 supporting 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, Fayetteville School District No. 1 complied with the aforementioned requirements for the year ended June 30, 2015 in all material respects.

This report is intended solely for the information and use of the School Board, management, and the Arkansas Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Hudson Cisne & Co, LLP*

Hudson Cisne & Co. LLP  
Little Rock, Arkansas  
February 17, 2016

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**FAYETTEVILLE SCHOOL DISTRICT NO. 1**  
**SCHEDULE OF STATUTES REQUIRED BY ARKANSAS DEPARTMENT OF EDUCATION**  
**TO BE ADDRESSED IN INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**YEAR ENDED JUNE 30, 2015**

<u><b>DESCRIPTION</b></u>	<u><b>STATUTES</b></u>
<b>Bidding &amp; Purchasing Commodities</b>	6-21-301 – 6-21-305
<b>Ethical Guidelines and Prohibitions</b>	6-13-628; 6-24-101 et seq.
<b>Collateralization &amp; Investment of Funds</b>	6-20-222; 19-1-504
<b>Deposit of Funds</b>	19-8-104; 19-8-106
<b>District Finances</b>	6-20-402
• Bonded & Non-bonded Debt, District School Bonds	6-20-1201 – 6-20-1208; 6-20-1210
• Petty Cash	6-20-409
• Changes in Pullback (no deferrals – declining accrual percentages)	6-20-401
• Investment of Fund	19-1-504
<b>Management of Schools</b>	
• Board of Directors	6-13-604; 6-13-606; 6-13-608; 6-13-611 – 6-13-613; 6-13-617 – 6-13-620; 6-24-101 et seq.
• District Treasurer	6-13-701
○ Warrants/checks	6-17-918; 6-17-919; 6-20-403
<b>Management Letter for Audit</b>	14-75-101 – 14-75-104
<b>Nonrecurring Salary Payments</b>	6-20-412
<b>Revolving Loan Fund</b>	6-19-114; 6-20-801 et seq.
<b>Salary Laws - Classified</b>	6-17-2201 et seq.; 6-17-2301 et seq.
<b>Salary Increases 5% or more (certified and classified)</b>	6-13-635
<b>School Elections</b>	6-13-622; 6-13-630; 6-13-631; 6-13-634; 6-14-106; 6-14-109; 6-14-118
<b>Teachers and Employees</b>	
• Personnel Policies	6-17-201 et seq., 6-17-2301
• Employment and Assignment	6-17-301 et seq.
• Teacher's License Requirement	6-17-401 et seq.
• Contracts	6-17-801 et seq.
• Certification Requirements	6-17-309; 6-17-401
• Fair Dismissal Act	6-17-1501 et seq.; 6-17-1701 et seq.
• Sick Leave Policies	6-17-1201 et seq.; 6-17-1301 et seq.
<b>Teacher Salaries and Foundation Funding Aid</b>	6-17-803; 6-17-907; 6-17-908; 6-17-911 – 6-17-913; 6-17-918; 6-17-919
<b>Trust Funds (Education Excellence)</b>	6-5-307
<b>Use of Contractors, Improvement Contracts</b>	22-9-201 – 22-9-205
<b>Use of DM&amp;O Millage</b>	26-80-110
<b>On Behalf Payments</b>	The amounts of funds paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of District employees

**FAYETTEVILLE SCHOOL DISTRICT NO. 1****SUPPLEMENTAL DATA SHEET****YEAR ENDED JUNE 30, 2015**

The following information is being provided to satisfy the requirements of Arkansas Department of Health and Human Services Audit Guidelines, Section IX. C - Special Requirements:

1. Entity's Full Name: Fayetteville School District No. 1 of Washington County
2. Entity's Address: 1000 W. Bulldog Blvd.  
Fayetteville, AR 72701
3. Entity's FEIN: 71-6021514
4. Entity's Telephone Number: (479) 444-3000
5. Name of Director: Paul Hewitt, Superintendent
6. Name of Contact Person: Kathy Hanlon, Chief Financial Officer