Making Sense of the Dollars

A Guide to the Finances of Fort Smith Public Schools

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Preamble

As an accountant, I believe that numbers represent a language that can tell a story (just like words on a page). My goal in this attachment is to provide context and help the user understand the narrative that a financial report, albeit a budget or a monthly summary, tells about Fort Smith Public Schools (FSPS or “the District”).

This document is not comprehensive. Yes, it’s many, many pages; but it barely covers the complexity and overwhelming nature of public finance in Arkansas.

It is purposefully written utilizing pronouns such as “we” or “I” to make it more personal and targeted. Hopefully, this is a conversational style that will help this document be more user-friendly.

Acronyms and Definitions

DESE – Division of Elementary and Secondary Education. DESE is a division of the Arkansas Department of Education.

ADE – Arkansas Department of Education.

Revenue Code – The five digit revenue code established by DESE. This table provides insight to the structure of the revenue codes:

Category	First Digit	Example
Local	1	11110 – Current taxes collected from July to December
State	3	32381 – ESA (state categorical fund) receipt of funds
Federal	4	45613 – Title VIB (special education) receipt of funds
Other	5	52200 – Transfer from the Operating Fund

FF – Foundation Funding. Foundation Funding is the primary source of state revenue received by Arkansas to fulfill the state’s constitutional duty to provide adequate and equitable funding for public education. It is sometimes referred to as “state aid”, but we will define the term “state aid” later in the narrative.

ADM – Average Daily Membership. This acronym is the average of each school day’s student enrollment count. ADM is an important number for calculating our FF level. It’s one of the Four Factors of Funding.

BUN – Budget Unit Number. This is an acronym that I prefer to use. In accounting terms, it's the chart of accounts that is dictated by DESE for expenditures. For Arkansas public schools, the BUN is sixteen digits. This table provides insight to the structure of the BUN:

	Fund	Function	LEA	Program	Subject
Digit Count	4	4	3	3	2
Definition	The fund being used	Functionality of the expenditure such as social work or school instruction	Local Education Agency (the school or department)	A way to group costs that may expand across many funds, functions, and LEAs	Not required, but it is available to use for common school subjects.
Example	2281 – Enhanced Student Achievement (ESA)	1130 – Middle School Instruction	023 – Ramsey Middle School	200 - Special Education	39 – Math

Object Code – The five digit expenditure code established by DESE. Expenditure codes start with the number six (6). For example, 66110 is used for material and supplies costing less than $1,000.

S&B – Salary & Benefits. This is the term for employee compensation and the employee benefits of FSPS. Our benefits include social security taxes; health, dental, vision & life insurance; a defined benefit pension; workers comp; and employee leave. The pension contributions go to the Arkansas Teachers Retirement System (ATRS).

M&O – Maintenance & Operations. This is the term for the basic operating expenses of a school district. It includes utilities, materials & supplies, personal & professional services, and fuel. S&B can be a part of M&O.

Unrestricted Funds – This is the common term used in fund accounting. It is a little misleading. The funds are not void of restrictions. It means there are very few specific restrictions or limitations placed by the source. There are still restrictions – it's not a free-for-all. Common sense, internal controls, good stewardship, and reasonableness are common guardrails that restrict these "unrestricted funds".

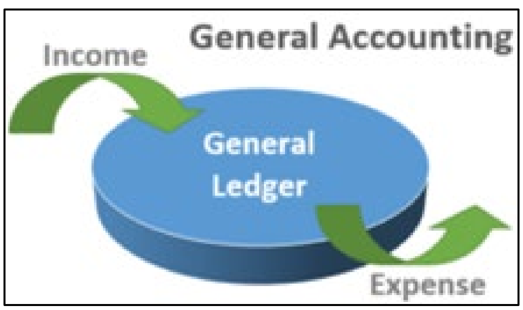
The Basics of Fund Accounting

Fund Accounting

Fund accounting is a method of financial management that tracks money allocated to specific pockets of operations – especially in government agencies and tax-exempt organizations. The system is designed to ensure funds are used productively and purposefully.

Traditional (or general) accounting is commonly used in for-profit organizations to maximize profits (the bottom line) without the need to manage funding restrictions. Whereas, fund accounting systems manage multiple funding sources differentiating the restricted and unrestricted funds.

These pictures provide a good visual representation of the differences in traditional accounting and fund accounting.



General accounting basically works with one big pot of money all driven by profit.

Fund accounting works with various buckets of money. Each bucket has a separate accounting to ensure that each bucket is spending purposefully to fulfill the program's mission.

The benefits of fund accounting include the following:

- Compliance monitoring – Are funds spent as required?
- Effective allocation of funds – Are targeted funds prioritized when spent?
- Good stewardship – Are expenditures honoring the sources of funds used?

For these reasons, fund accounting is an ideal accounting model for public school districts like FSPS.

We follow state coding rules and regulations. We look at the level of restrictions that each source of funds utilizes. The BUNs and Object codes are dictated by DESE. Funds (the first section of the BUN) are recognized as four digits. The first digit indicates the general category of fund as follows:

<table>
<tr><th>Fund #</th><th>Category or Fund Name</th><th></th></tr>
<tr><td>1xxx</td><td>Teachers Salary Fund</td><td rowspan="4">Legal Fund Balance</td></tr>
<tr><td>2000/2001</td><td>Operating Fund (Matrix Fund)</td></tr>
<tr><td>2xxx</td><td>State Grants & Categorical Funds</td></tr>
<tr><td>4xxx</td><td>Debt Service Fund</td></tr>
<tr><td>3xxx</td><td>Capital Projects Fund</td><td></td></tr>
<tr><td>6xxx</td><td>Federal Funds</td><td></td></tr>
<tr><td>8xxx</td><td>Child Nutrition Fund</td><td></td></tr>
<tr><td>7xxx</td><td>Activity Fund</td><td></td></tr>
</table>

The Source of Funds

Not all of the fund categories have a source of funds. The following table indicates the sources of funds for each category:

Fund #	Category or Fund Name	Source of Funds
1xxx	Teachers Salary Fund	
2000/2001	Operating Fund (Matrix Fund)	Local, State, and Federal
2xxx	State Grants & Categorical Funds	State
4xxx	Debt Service Fund	
3xxx	Capital Projects Fund	Bond Proceeds; Interest
6xxx	Federal Funds	Federal
8xxx	Child Nutrition Fund	Local, State, and Federal
7xxx	Activity Fund	Local

Revenue

Revenue for FSPS is the collection of taxes at the local level, the state distribution of state taxes at the state level, state grants (state taxes modified into a targeted grant), and federal funds (collected at the federal level and distributed at the federal level through the state). That's a long sentence. Let's break it down.

Local Revenue

Local revenue is the millage tax we collect from the Sebastian County Collector's office. Everything they collect in one month is distributed to us by the 10th of the next month.

The FSPS millage rate, last approved by taxpayers in 2018, is 42.058 mills. The first 25 mills are required by state law and are technically part of the FF we receive from the state. These first 25 mills are called the "uniform rate of tax" or URT. It's uniform because **all** school district maintain a basic, uniform millage rate of 25 mills. These 25 mills are intended to pay for the M&O costs of a school district.

Additional mills beyond the 25 mills are discretionary and subject to local taxpayer approval. Typically, these additional mills are earmarked for debt service payments. However, the taxes collected in excess of the actual debt service payments are available to pay for the operations of a school district.

Arkansas legislators have written into law a "guarantee" for school districts to receive 98% of the URT each calendar year. In other words, if FSPS has a 25 mill tax levy of $10,000,000, this provision ensures that FSPS will receive 98% of this levy ($9,800,000). If the actual collections in the calendar year were $9,600,000, then the state would send us an additional $200,000 ($10,000,000 x 98% less $9,600,000).

Here's how the collection from the Sebastian County Collector is categorized:

Source of Funds	Description
Current real and personal tax	Due with car tag renewal (personal tax) or October 15th (real tax)
Homestead credit (Property Tax Relief)	Credit awarded by state (paid from collected state sales tax) on your personal residence
Delinquent real and personal tax	Payments from taxpayers that are paid after the deadline
In Lieu of Tax	Businesses can petition the city or county for a tax "discount" for investment of business property that would have been fully taxed otherwise

Please note that local taxes include a third category in the "current real and personal tax" line. In addition to the real property tax (tax on buildings and land) and the personal property tax (tax on cars and business furniture, fixtures, and equipment), there is a public utilities tax on a utility company's equipment. This tax is regulated by the Public Service Commission and too complex to explain in this narrative.

An example of the calculation of real property taxes to the local taxpayer is as follows:

Term	Definition or Value	Calculation
Appraised Value	Fair market value of the property	$200,000
Assessed Value	20% of the Appraised Value	$ 40,000
Millage Rate	42.058 (approved 2018)	.042058
Real Property Tax	Assessed Value x Millage Rate	$1,682.32

Please remember, if it's a personal residence, the $500 Homestead credit is deducted from the tax due and the homeowner pays the net $1,182.32 ($1,682.32 - $500.00).

State Revenue

The state collects sales tax and income tax to fulfill the state constitutional requirement to pay for the public school education of Arkansas children.

Arkansas legislators determine the amount of per pupil funding to provide each fiscal year to meet this constitutional duty. This FF is split into two components – the URT listed above and the remaining state aid portion. The allocation for FSPS is about 40% URT and 60% state aid. This state aid portion is paid directly to FSPS from the state.

The URT portion is dependent on your district's assessment value. The greater your assessment value, the greater the percentage of FF is paid by URT (local collections). For example, Eureka Springs has a high assessment value for its small population and practically no funds are provided by the state aid portion.

State Grants

State grants are typically allocated by the state for targeted purposes, such as early education classrooms (Pre-K). These grants are funded from state sales and income tax and allocated by the state government agencies.

State Categorical Funds

Sales and income tax collected at the state level are used to provide these state categorical funds. The funding calculation rates are dictated by Arkansas legislators.

There are four specific state categorical funds as follows:

Fund	Short Name	Support Purpose	Calculation Rate
Professional Development	PD	Teacher training	District student count
Alternative Learning Environment	Alt Ed or ALE	Alt Ed classrooms	Alt Ed student count
English Learners	EL	Students where English is not the home language	EL student count
Enhanced Student Achievement	ESA	Disadvantaged students needing more instructional support	District student count qualifying for free or reduced meals

Sales and income tax collected at the state level are used to provide these state categorical funds. The funding calculation rates are dictated by Arkansas legislators.

The ESA funding levels are based upon our free and reduced (F/R) meal application student count. The funding rate is not only based upon our F/R student count – we get a specific dollar per F/R student – it is also based upon the tier that our percentage to total students might fall. This table reflects the tier of ESA funding for 2025-2026:

Level	Description	Funding Rate
I	Less than 70%	$ 551
II	70% or more; less than 90%	$1,103
III	90% or more	$1,653

There is a specific date of October 1st of each year that determines both the qualifying F/R student count and the qualifying F/R student percentage. This date and calculation is also the benchmark for many of our federal poverty-focused programs for disadvantaged students.

For over a decade, we have been funded at Level II. We consistently determine that about 71% of our total student population qualify for free or reduced meals.

These levels have very specific funding rates. If a district is at 69%, the per-student funding rate is $551. However, if the district moves to 70%, the per-student funding rate increases to $1,103. This creates “funding cliffs”. It’s a sharp fall off the cliff.

For example, if we have 10,000 students qualifying for F/R meals and it reflects 70% of our total student population, we get $11,030,000 ($1,103 x 10,000). However, if we added ten students to our total student population that did **not** qualify for F/R meals and our percentage drops to 69%, we get $5,510,000 ($551 x 10,000). Moving to Level I costs us $5,520,000 ($11,030,000 - $5,510,000) in funds.

This is why I always worry about our October 1st F/R count and percentage. I've said many times that I wish our student population didn't consist of so many students at the poverty level, but if that is the reality of our community, I want to ensure we have taken every penny that this reality provides for our school district – and ultimately, for our students.

Capital Projects Fund Revenue

- The local revenue for the Capital Projects Fund is interest income.
- The state has a Partnership Program that provides state grants for specific capital improvement projects.
- Bond proceeds are deposited here, but bond proceeds are not really revenue. They are better described as a financial source of funds.
- Transfers from the Operating Fund also account for increases in the Capital Projects Fund.

Federal Revenue

Federal revenue comes from the national income taxes collected by the federal government. The revenue is very restrictive and national leaders expect funds to be spent in compliance with the purpose of any specific funds.

The federal funds are sent to Arkansas to distribute to school districts. Almost all federal funds are sent to the state at the start of a school year and then Arkansas holds the funds to reimburse school districts after the school district has spent the money.

In other words, we spend our federal funds and then once a month, Arkansas looks at the total expenditure amount of each federal fund and automatically reimburses the school district for these expenditures.

Each year, FSPS gets an allocation of funds for a variety of federal programs. If we don't spend the full allocation, we are allowed to "roll over" the unspent allocation to the subsequent year. There are restrictions (typically 15% of the allocation) on the amount that is "rolled over" or deferred.

That's why most of the federal funds have a zero ending balance at the end of a fiscal year. We "accrue" the federal revenue the state hasn't yet reimbursed us.

It's also the reason these same federal funds have a negative balance at the end of each month. We don't "accrue" the federal funds at the end of each month, leaving the expenditures unreimbursed causing a negative ending monthly balance.

In the past, we received the full federal fund allocation in cash at the beginning of the fiscal year and then we would spend the balance down. Any unused federal fund could be "carried over" to the next fiscal year. As you might imagine, this ending fund balance was called our "carryover balance". Very few federal programs still advance us money, so carryover balances are uncommon.

We predominantly use the reimbursement system for federal funds. Therefore, the carryover is now a deferred allocation. I prefer to use the term "deferred allocation" or "carryover" purposefully to indicate the nature of funding (reimbursement v. advance).

An annual budget for each federal fund includes the annual allocation (subject to changes in program funding calculations and the interpretations of federal oversight) plus the deferred allocation from the previous year. The annual allocation and the deferred allocation are provided and confirmed by the state.

When the school board approves the annual budget, some of these federal fund allocations have not been fully calculated and published by the state. This is why I prefer the school board's budget approval to include language to allow us to adjust and align these allocations for final submission to the state. Some of these federal fund allocations are not published until late September.

Child Nutrition Revenue

The Child Nutrition Fund receives federal revenue, state revenue (from state sales and income taxes), and local revenue from meal sales. The federal revenue comes from the National School Lunch Act program. The program provides specific federal funds for each student meal provided. The funding rate for each meal is dependent on the student's F/R status – either full pay, reduced, or free. The district files a monthly "federal claim" to be paid by this federal program through the state for every student breakfast and lunch.

The state provides some specific grants and supplements the federal claim so that lunch meals are free to students qualifying for reduced meals and breakfast meals are free to all students. Although we have provided free breakfasts to all students for years, the state is now picking up the tab.

Local revenue is the collection of funds from selling food and drinks to students, staff, and guests. Meals are provided to students regardless of the outstanding balance of the student. Sadly, uncollected school meal balances are over $250,000.

Activity Funds Revenue

Activity Funds revenue is the collection of fundraising and sponsorship fees for schools, clubs, and activities. FSPS is the fiscal agent for these funds. We hold the funds so the organization can spend funds as desired. We don't budget the revenue or the expenditure. We consider the district as the "bank" holding the funds for the group's activities.

Expenditures

Let's take a look at expenditures for each of the eight fund categories that we've established. We will also include discussions of the ending balances of these funds.

Teachers Salary Fund

The Teachers Salary Fund was established by DESE for all certified employee salary expenditures. The exception is for certified salaries paid with a federal fund. The fund does not include certified employee benefits.

Certified employee salaries are paid from Fund 1xxx, but there is no direct source of funds for these expenditures. Districts must replenish the fund from Fund 2xxx. Therefore, the "indirect" sources of funds for these salaries are the Operating Fund and/or the State Grants & Categorical Funds.

We pay teachers from the Teachers Salary Fund, but we have to transfer funds from the Operating Fund to replenish the balance. This fund should have a zero ending balance. We make an accounting transfer at the end of each month so the balance is zero at the end of the month. Some school districts don't "true up" the Teachers Salary Fund until the end of the fiscal year. Their monthly financials show a big negative ending monthly balance. We record the transfer monthly so that the large negative number is not confusing to the public.

Operating Fund

I like to call the Operating Fund the "Matrix Fund". This is the fund where local and state taxes are primarily received. This fund is scrutinized by state legislators. They control the state aid (by setting the FF rate). They use a funding model that they call "The Matrix", so I like to utilize the same term for this operating fund, Fund 2000/2001. Fund 2000 is where Matrix spending is done, Fund 2001 is where Matrix revenue is received.

The Matrix Fund is considered an unrestricted fund. It's the main source of funds, coming primarily from local and state taxpayers. It supports most of the teaching, learning, and extra-curricular activities of FSPS.

This Matrix Fund balance is the focus of most of my attention. DESE monitors the ending annual balance. If this balance is consistently declining or even declining excessively in one year, it could indicate that the school district is in fiscal distress.

We purposely monitor this balance, and as best we can, we control the balance to show moderate but positive growth. It's an interesting balancing act. A few legislators don't like the fact that school districts have an ending fund balance. They consider that an ending balance means the school district didn't need all of that money. Some cynics say it's their way to justify cutting back future FF rates.

In reality, an ending fund balance is important to pay for costs in the early part of the school year, when expenditures exceed the revenue collected. It is also important to have a sufficient fund balance to pay for unforeseen crises and opportunities.

We budget transfers between the Matrix Fund and the Capital Projects Fund to better control the ending fund balance. It's a useful and purposeful accounting tool that is now closely monitored by DESE.

State Grants

We discussed state grants in the revenue section. These grants have various levels of restrictions. For discussion purposes, this table lists a few of these restriction levels:

Fund Number	Fund Name	Restriction Level	Purpose
2214	Merit Pay	Very High	Pass-through for state's Merit Pay for Teachers program
2217	Student Growth Fund	Low	Extra funds for growing ADM
2218	Declining Enrollment Fund	Low	Extra funds for declining ADM
2232	Arkansas School Recognition	Low	School-level awards for good test scores
2397	School Safety Grant	Moderate	Grant for safer schools

Fund 2214 Merit Pay is an example of pass-through funds from the state. On occasion, DESE wants to pay specific teachers or vendors, but doesn't want the funds to be paid directly by the state. They send us the funds and we pass through the funds to the intended person or vendor. There is no wiggle room for how we spend these funds. Therefore, these funds do not carry over.

Funds 2217 and 2218 are examples of state grants that are supplemental and practically unrestricted. Legislators determined that districts need transitional funds when changes to ADM occur. Student Growth Funds help schools pay for the unexpected increase in ADM. Declining Enrollment Funds help schools pay for costs that will need to be eventually eliminated because of the decline in ADM. These funds can carryover, but DESE prefers for the funds to be spent in the year they are awarded.

Fund 2232 is an example of a state award with limited restrictions. FSPS celebrates these school-level awards and works with Principals to spend the funds for something outside the box. These funds can carryover, so this fund balance may fluctuate.

Fund 2397 is an example of a state grant that is spent purposefully but allows for flexibility. This grant was presented to the school board by FSPS Police Chief Huber. This grant had a deadline, but the deadline was extended past the end of the fiscal year because of the short time period between grant notification and grant deadline.

State Categorical Funds

Let's review the expenditure purposes of the four state categorical funds. This table outlines these expenditures:

Fund	Support Purpose	Examples
PD	Teacher training	Professional learning classes and travel
ALE	Alt Ed classrooms	S&B of Orr Learning Academy teachers
EL	Students where English is not the home language	Paraprofessional S&B for classroom support
ESA	Disadvantaged students, needing instructional support	S&B of nurses, social workers, and police officers; instructional programs

For budgeting purposes it is important to understand that the money can be freely transferred to and from these four funds. The ESA funds are needed to supplement the other three funds. In other words – PD, ALE, and EL are not self-sufficient programs.

Another important note is that ESA has a carryover limitation of 15% of the ESA allocation. These four funds are not under the state's reimbursement program. ESA is distributed evenly on a monthly basis. Therefore, ESA can have a carryover of funds of up to 15% of the current year allocation.

We have a team of employees working with our state categorical funds. They closely monitor the expenditures of these four funds to ensure the books are balanced and compliant with all limitations, rules, and regulations.

Debt Service Funds

The Debt Service Fund is utilized to record principal and interest payments made on bonds issued by the District. Debt service payments are paid from Fund 4xxx, but typically there is no direct source of funds for these expenditures. Districts must replenish the fund from Fund 2000/2001. Therefore, the "indirect" source of funds for these debt service payments is the Matrix Fund.

FSPS has strategically taken advantage of provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) that allowed certain Qualified School Construction Bonds (QSCB) and Qualified Zone Academy Bonds (QZAB) to be repaid through the use of a sinking fund.

Normally principal and interest payments are paid to a trustee to send to the bond holder. However, the utilization of a sinking fund provision allows the debtor (FSPS) to send the principal payment to the trustee to place in a trust bank account called a "sinking fund".

This difference is important because the sinking fund is allowed to earn interest like you or I might earn on a bank account. The earnings accumulate in the sinking fund and reduce the next principal payment. If your principal payment was $1,000 in Year 1 and you earn $45 of interest between Year 1 and Year 2, then your Year 2 principal payment is reduced to $955 ($1,000 - $45).

Every year the interest earned grows exponentially, driving future principal payments down. The following table shows the current sinking fund program activity for 2024-2025:

Bond Issue	Beginning Balance	Principal Payment	Sinking Fund Earnings	Ending Balance	Maturity Date
QSCB 11/1/2009 $5,125,000	$4,328,266.01	$291,544.51 Instead of $320,312.50	$132,770.43	$4,752,580.95	11/2/2025
QSCB 12/1/2010 $7,940,000	$5,474,292.49	$311,543.03 Instead of $417,895.00	$105,566.91	$5,891,402.43	12/1/2029
QZAB 10/6/2011 $3,885,000	$2,694,245.83	$ 90,503.26 Instead of $215,833.00	$103,328.31	$2,888,077.40	10/1/2029
QSCB 10/6/2011 $1,115,000	$ 773,246.23	$ 25,980.78 Instead of $ 61,944.00	$29,649.83	$828,876.84	10/1/2029
QZAB 11/5/2012 $12,570,000	$6,185,601.72	$413,911.63 Instead of $546,521.74	$110,726.75	$6,710,240.10	11/1/2035

In the "Principal Payment" column, the top number is the actual principal payment made. After the words "Instead of" is the bottom number, which is the original principal payment made. The total savings of all these reduced payments equals $386,276.97. That's money we get to keep.

On the last four of these same bond issues, FSPS enrolled in an ARRA program that provided reimbursement for 100% of the interest paid each year. Under the program, we pay the trustee the full interest payment and then we send a reimbursement form (Form 8038-CP) to the IRS to reimburse us for the interest payment.

However, failure to meet national deficit reduction targets under the federal Budget Control Act of 2011 triggered sequestration cuts of 5.7% of this program. Instead of getting 100% of our interest payment reimbursed, we get 94.3% instead. It’s still better than nothing.

Legal Fund Balance

The collective balance of the Teachers Salary Fund, the Operating Fund, the State Grants and Categorical Funds, and the Debt Service Fund is called the Legal Fund Balance.

It seems to be a balance of interest to legislators, but I don’t consider it a meaningful number because “the devil is in the details”. The fluctuation of ending balances of state grants and the ESA funds, combined with our growing sinking fund balances distort any narrative that alone the balance may tell. That’s why I focus more attention on the Matrix Fund balance. It paints a truer picture of short-term and long-term fiscal stability.

There is still a cap on the amount of the Legal Fund Balance. The calculation limits the Legal Fund Balance to 20% of the local and state revenue collected each year. The calculation eliminates the revenue and fund balance of the four state categorical funds. It also removes the sinking fund balances. Since the cap was established in law, FSPS has maintained a calculated average of 8-9% each year end.

Capital Projects Fund

The Capital Projects Fund is a separate fund set aside for capital improvements of the district. Funding is provided by bond issues, interest income, and transfers from the Matrix Fund.

All the bond issues for which we now make principal and interest payments were originally deposited into this Capital Projects Fund. Each district has the discretion to set up a separate capital project fund as needed.

We set up separate funds from the two bond issues we called the “Vision 2023 Capital Improvement Program”. It helped us trace the expenditures that were eventually spent in full in 2022. The following table shows the District’s current capital project funds:

Fund Number	Fund Name	Source	Purpose
3000	Capital Projects Fund	Fund Transfer	Available as needed
3001	Turf and Scoreboards	Sponsorship	For future turf and scoreboards
3004	New Mills Fund	Fund Transfers	Available as needed
3404	Partnership Program	DPSAFT* (DESE)	Partnership Program funds

* - DPSAFT is the Division of Public School Academic Facilities and Transportation.

The follow table summaries activities for 2024-2025:

Fund	Beginning Balance	Plus Revenue	Transfers In (Out)	Less Expenditures	Ending Balance
3000	$2,658,612.49	$ 65,745.87	-	$1,687,936.51	$1,036,421.85
3001	$1,500,000.00	$ 11,295.16	$122,663.37	-	$1,633,958.53
3004	$8,427,322.22	$327,876.86	$664,973.41	$1,834,973.41	$7,585,199.08
3404	-	$715,797.54	-	$ 715,797.54	-

Fund 3000 now contains funds that have been transferred from our Operating Fund. All bond issue proceeds had been spent as required. Maintaining and funding this fund allows us to buy land and make capital improvements as needed.

Fund 3001 is separate and earmarked for turf and scoreboard replacement costs. We have generous sponsors providing funds to pay for the turf at our football fields and the scoreboards in our arenas. Some sponsorship pledges have been received in full. Some sponsorship pledges are collected annually. Collections are transferred into this fund for future turf and scoreboard replacements.

Fund 3004 is the accumulation of the taxes collected from the 2018 millage increase in excess of the debt service payments on the “Vision 2023” bond issues. They were used to pay for “Vision 2023” costs in excess of the original bond issues. They are now used for targeted playground and cafeteria equipment replacements.

Fund 3404 is required by DPSAFT. Expenditures are allocated to this fund and then reimbursed by ADE’s Partnership Program as administered by DPSAFT. This is the program discussed in depth during our long-range planning presentations.

Please note that capital projects costs (sometimes in excess of a $1,000,000) that are reimbursed by insurance proceeds are not paid from Fund 3xxx. Those costs and the insurance proceeds are maintained in the Matrix Fund.

Federal Funds

Federal Funds are restricted in accordance with the purpose of the individual federal fund. The following table provides some details on a handful of federal funds:

Fund Number	Fund Name	Allocation	Location of Overseers	Purpose
6501	Title I	$7,108,790	Parker Center	Instructional support for F/R students
6570	Carl Perkins	$ 340,022	Peak Center	Vocational education program
6756	Title II	$ 868,806	Human Resources	Teacher recruitment and retention program
6702	Title VI-B (IDEA*)	$3,573,879	Special Education	Special education programs

*IDEA is an acronym for Individuals with Disabilities Education Act.

The same team administering the state categorical funds also supervise many of the federal funds. They have created targeted internal controls and documentation requirements to ensure program compliance. This compliance and documentation requires additional staffing, primarily paid by the federal funds.

Child Nutrition Fund

Fund 8000 is the Child Nutrition Fund. As previously stated, the program was created by the National School Lunch Act. It is technically a federal fund. Fund 8000 expenditures are primarily S&B, food, drink, and paper goods. There was a time when Fund 8000 was self-sustaining. That was before COVID-19. The federal claim and other revenue sources have not kept up with the rising cost of labor and materials.

Material costs for Child Nutrition are the cost of food and paper goods. Just like your grocery bill has gone up, ours has grown as well.

FSPS has been intentional to pay market rate wages to our child nutrition staff. This requires us to supplement the funds with Matrix Funds. We hope that the program revenue will better reflect the cost of school meals in the future.

Activity Funds

Activity Funds are spent in accordance with the purpose of the club or activity. While the source of funds is the general public (school picture money, club dues, and fundraisers), it's not a tax. It's voluntary.

Therefore, the expenditures have only a few written internal restrictions. The funds still follow our internal controls, but they are the least restrictive of all the funds.

The Four Factors of Funding

I can't have a financial discussion without a review of the Four Factors of Funding. These four factors are the fundamental elements for most of the local and state revenue that we need to operate our schools. Here's a breakdown of the four factors:

Student Count

Current year FF is based upon the ADM of the first three quarters of the previous school year. We know this factor by April 15th. F/R student counts and percentages are known by October 1st. The F/R count of October determines ESA (and some federal funds) for the subsequent fiscal year.

FF Rates

This is a per pupil funding rate that is set by state legislators meeting every other year. They typically set the rates for two fiscal years. We didn't know the FY25 per pupil rate until April 2024. We do know the FY26 rates already.

Another series of rates determined by state legislators is the per pupil funding rate for state categorical programs. Just like the FF rate, we already know the FY26 rates. We won't be able to confirm the ESA funding until October 1, 2025, when we can calculate our F/R percentage.

Assessed Value

Local taxes are based upon the assessed value of the property in the school district. Every four years, all the county assessments are re-appraised. The year for Sebastian County reassessments is 2025. The Assessor releases reappraisal letters in 2025 with the taxes to be collected in 2026. You may have received a letter about your home's new assessed value. This is the first reassessment since the pandemic. We should start to see the increases in the fair market value of property that has taken place since then.

Our collection rate is a historical figure that has remained consistent over the years. Remember, we are guaranteed 98% collections of the first 25 mills. We are on our own to collect the remaining 17.058 mills.

Millage Rate

The millage rate is approved by the taxpayers every year. The last millage increase was in 2018. It successfully changed the millage from 36.5 to 42.058.

Final Thoughts

This is a long, tedious document. My goal is to provide a written reference for the various financial reports we share with the public. Whether you are reviewing our budget, our independent audit, or our monthly financial reports, this resource should help.

We desire to be good stewards of the local, state, and national funds. There will always be philosophical questions about the way to spend money. There should never be a question of whether or not we spent the money purposefully and properly.

Charles Warren
Financial Services
Education Is Our Business