



FRANKLIN COUNTY BOARD OF EDUCATION CARNESVILLE, GEORGIA

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

(Including Independent Auditor's Reports)



FRANKLIN COUNTY BOARD OF EDUCATION

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SECTION I

FINANCIAL

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

October 26, 2016

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Franklin County Board of Education

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin County Board of Education, as of and for the year ended June 30, 2015, and the related notes to the financial statements (Exhibits A through H), which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

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are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin County Board of Education, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2015, the Franklin County Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The School District restated beginning Net Position for the cumulative effect of these accounting changes. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2015, the Franklin County Board of Education restated the prior period financial statements to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability, Schedule of Contributions to Retirement Systems, Notes to the Required Supplementary Information and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual as presented on pages i through xii and pages 31 through 34 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin County Board of Education's basic financial statements. The accompanying supplementary information, consisting of Schedules 5 through 8, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Franklin County Board of Education's internal control over financial reporting and on 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 Franklin County Board of Education's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated Section 50-6-24.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin".

Greg S. Griffin
State Auditor

GSG:er
2015ARL-11

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**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

INTRODUCTION

The School District's financial statements for the fiscal year ended June 30, 2015 include a series of basic financial statements that report financial information for the District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provide financial information about all of the District's activities and present both a short-term and long-term view of the District's finances on a global basis. The fund financial statements provide information about all of the District's funds. Information about these funds, such as the District's General Fund, is important in its own right, but will also give insight into the District's overall soundness as reported in the Statement of Net Position and the Statement of Activities.

In fiscal year 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 68 and No.71, which address new pension accounting requirements. The adoption of these statements had a significant impact on the School District's District-wide financial statements, and in many cases distorts comparability of fiscal year 2015 financial statements with those of the prior year. Prior year financial statements, as presented herein, have not been restated for implementation of GASB No.68 and No.71. The District's Governmental Fund Financial Statements were not affected by implementation of these new statements.

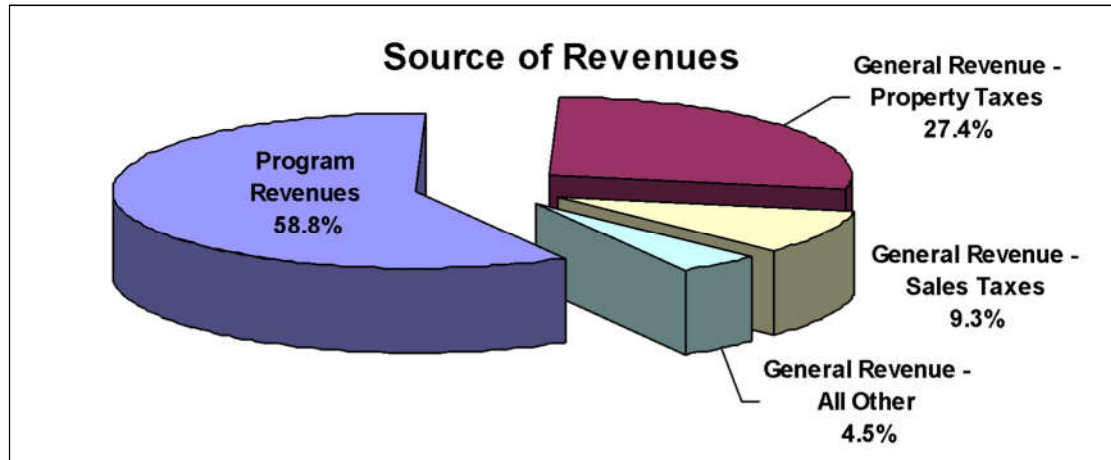
FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

On the District-wide financial statements:

- The District's net position at June 30, 2015 was \$37.6 million. Net position reflects the difference between all assets of the District (including capital assets, net of depreciation), and deferred outflows of resources and all liabilities, both short-term and long-term, and deferred inflows of resources. The net position at June 30, 2015 of \$37.6 million represented a decrease of \$26.0 million when compared to the prior year. This large decrease in net position was due to implementation of GASB No. 68 and No. 71.
- The School District had \$35.6 million in expenses relating to governmental activities; \$22.0 million of these expenses were offset by program specific charges for services, grants and contributions. However, general revenues (primarily property and sales taxes) of \$15.4 million were adequate to provide for these programs.
- As stated above, general revenues accounted for \$15.4 million or about 41.2% of all revenues totaling \$37.4 million. Program specific revenues in the form of charges for services, grants, and contributions accounted for the balance of these revenues. (Percentages in table below have been rounded to one decimal place.)

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**



On the fund financial statements:

- Among major funds, the General Fund had almost \$34.3 million in revenues and \$34.5 million in expenditures. The General Fund balance of \$3.6 million at June 30, 2015 decreased about \$200 thousand from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial Statements consists of three parts: management's discussion and analysis (this section), the basic financial statements including notes to the financial statements and required supplementary information. The basic financial statements include two levels of statements that present different views of the School District. These include the District-wide and fund financial statements.

The District-wide financial statements include the 'Statement of Net Position' and 'Statement of Activities.' These statements provide information about the activities of the School District presenting both short-term and long-term information about the School District's overall financial status.

The fund financial statements focus on individual parts of the School District, reporting the School District's operation in more detail. The 'Governmental Funds' statements disclose how basic services are financed in the short-term as well as what remains for future spending. The 'Fiduciary Funds' statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others. In the case of the Franklin County School District, the General Fund, Capital Projects Fund, and Debt Service Fund are all considered to be major funds. The District has no funds reported as nonmajor funds as defined by generally accepted accounting principles.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. Additionally, other supplementary information (not required) is also presented that further supplements understanding of the financial statements.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

District-wide Statements

Since Franklin County School District has no operations that have been classified as “Business Activities”, the District-wide financial statements are basically a consolidation of all of the District’s operating funds into one column called governmental activities. In reviewing the District-wide financial statements, a reader might ask the question, are we in a better financial position now than last year? The ‘Statement of Net Position’ and the ‘Statement of Activities’ provides the basis for answering this question. These financial statements include all District’s assets and liabilities and uses the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and any changes in net position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the results of many factors, including those not under the School District’s control, such as the property tax base, facility conditions, required educational programs, student-teacher ratios, and other factors.

When analyzing District-wide financial statements, it is important to remember these statements are prepared using an economic resources measurement focus (accrual accounting) and involve the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets
- Depreciate capital assets
- Report long-term debt, including pension obligations, as a liability
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net position as follows:
 - *Net Investment in Capital Assets*
 - *Restricted Net Position* is amounts with constraints placed on the use by external sources such as creditors, grantors, contributors or laws and regulations.
 - *Unrestricted Net Position for no specific use*

Fund Financial Statements

The School District uses many funds or sub-funds to account for a multitude of financial transactions during the fiscal year. The fund financial statements presented in this report provide detail information about the School District’s significant or major funds. As discussed previously, the District has no nonmajor Funds as defined by generally accepted accounting principles.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The District has two kinds of funds as discussed below:

Governmental Funds – Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual method of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.

Fiduciary Funds – The School District is the trustee, or fiduciary, for assets that belong to clubs, organizations and others within the principals' accounts. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net position, which is the difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources, is one indicator of the financial condition of the District. When revenues exceed expenses, the result is an increase in net position. When expenses exceed revenues, the result is a decrease in net position. The relationship between revenues and expenses can be thought of as the District's operating results. The District's net position, as measured in the Statement of Net Position is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position, as measured in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. However, the District's goal and mission is to provide success for each child's education, not to generate profits as private corporations do. For this reason, many other nonfinancial factors should be considered in assessing the overall health of the District.

In the case of the Franklin County School District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$37.6 million at June 30, 2015. To better understand the District's actual financial position and ability to deliver services in future periods, it is necessary to review the various components of the net position category. For example, of the \$37.6 million of net position, about \$3.9 million was restricted for continuation of various Federal programs, debt service and ongoing capital projects. Accordingly, these funds were not available to meet the District's ongoing obligations to citizens and creditors.

In addition, the District had \$58.4 million (net of related debt) invested in capital assets (e.g., land, buildings, and equipment). The District uses these capital assets to provide educational services to students within geographic boundaries served by the District. Because of the very nature and on-going use of the assets being reported in this component of net position, it must be recognized that this portion of the net position is *not* available for future spending.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Because of the restrictions on net position as discussed above and because of implementation of GASB No. 68 and No. 71, the District had an unrestricted deficit of about \$24.7 million at June 30, 2015. However, the District's overall Net Position can also be viewed in the following manner:

| | |
|----------------------------------|--------------------------------|
| Pension Related Net Position | \$ -26,379,197.00 |
| Non Pension related Net Position | <u>63,939,094.62</u> |
| Net Position, June 30, 2015 | \$ <u><u>37,559,897.62</u></u> |

The above analysis reflects, despite pension obligations, the District's Net Position is a positive \$37.6 million and management believes the District's financial position is sound.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Table 1 provides a summary of the School District's net position for this fiscal year as compared to the prior fiscal year. GASB No. 68 and No. 71 were implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB No. 68 and No. 71.

**Table 1
Net Position**

| | Governmental Activities | |
|---------------------------------------|-------------------------|-------------------------|
| | Fiscal Year 2015 | Fiscal Year 2014 (1) |
| Assets | | |
| Current and Other Assets | \$ 13,678,374 | \$ 14,664,146 |
| Capital Assets, Net | 65,027,275 | 65,126,682 |
| Total Assets | 78,705,649 | 79,790,828 |
| Deferred Outflows of Resources | 2,338,991 | |
| Liabilities | | |
| Current and Other Liabilities | 27,402,865 | 4,950,540 |
| Long-Term Liabilities | 8,197,261 | 10,823,015 |
| Total Liabilities | 35,600,126 | 15,773,555 |
| Deferred Inflows of Resources | 7,884,616 | 389,179 |
| Net Position | | |
| Net Investment in Capital Assets | 58,377,893 | 59,065,411 |
| Restricted | 3,853,744 | 2,281,068 |
| Unrestricted | -24,671,739 | 2,281,615 |
| Total Net Position | \$ 37,559,898 | \$ 63,628,094 |

(1) Fiscal year 2014 balances do not reflect the effect of the restatement of Net Position. See Note 2 of the Notes to the Basic Financial Statements for additional information.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Total net position decreased about \$26.1 million in fiscal year 2015 from the prior year, primarily due to the implementation of GASB No. 68 and No. 71 accounting standards for pensions. In connection with this accounting change, management presents the following additional information:

| | |
|--|------------------------|
| Total unrestricted net position (deficit) | \$ -24,671,739.00 |
| Less unrestricted deficit in net position | |
| resulting from recognition of net pension obligations | <u>26,379,197.00</u> |
| Unrestricted Net Position exclusive of the net pension | |
| liability effect | \$ <u>1,707,458.00</u> |

Table 2 provides the change in the School District's net position for this fiscal year as compared to the prior fiscal year. GASB No. 68 and No. 71 were implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of these statements.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Table 2
Change in Net Position
(In Thousands)**

| | Governmental Activities | |
|---|-------------------------|-------------------------|
| | Fiscal Year 2015 | Fiscal Year 2014 (1) |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$ 540,326 | \$ 538,014 |
| Operating Grants and Contributions | 21,157,410 | 19,966,584 |
| Capital Grants and Contributions | 326,555 | 3,213,419 |
| Total Program Revenues | 22,024,291 | 23,718,017 |
| General Revenues: | | |
| Taxes | | |
| Property Taxes | | |
| For Maintenance and Operations | 10,250,537 | 9,419,608 |
| Sales Taxes | 3,469,873 | 3,361,882 |
| Grants and Contributions not | | |
| Restricted to Specific Programs | 1,154,671 | 687,014 |
| Investment Earnings | 27,972 | 33,495 |
| Miscellaneous | 661,682 | 754,344 |
| Special Items | | |
| Loss on Disposal of Capital Assets | -148,809 | -391,624 |
| Total General Revenues and Special Items | 15,415,926 | 13,864,719 |
| Total Revenues | 37,440,217 | 37,582,736 |
| Program Expenses: | | |
| Instruction | 22,387,945 | 20,830,729 |
| Support Services | | |
| Pupil Services | 1,237,309 | 1,043,352 |
| Improvement of Instructional Services | 1,360,917 | 1,503,287 |
| Educational Media Services | 546,228 | 527,964 |
| General Administration | 537,240 | 404,377 |
| School Administration | 2,026,798 | 1,907,402 |
| Business Administration | 281,845 | 254,265 |
| Maintenance and Operation of Plant | 2,414,408 | 2,241,216 |
| Student Transportation Services | 2,165,454 | 2,147,174 |
| Central Support Services | | 2,140 |
| Other Support Services | 277,573 | 215,426 |
| Operations of Non-Instructional Services | | |
| Enterprise Operations | 356,287 | 284,687 |
| Food Services | 1,821,868 | 1,622,278 |
| Interest on Short-Term and Long-Term Debt | 184,021 | 263,096 |
| Total Expenses | 35,597,893 | 33,247,393 |
| Increase in Net Position | \$ 1,842,324 | \$ 4,335,343 |

(1) Fiscal year 2014 balances do not reflect the effect of the restatement of Net Position. See Note 2 of the Notes to the Basic Financial Statements for additional information.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Cost of Providing Services

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting these services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. Net cost of services can be defined as the total cost less fees generated by the activities and intergovernmental revenue provided for specific programs. The net cost reflects the financial burden on the School District's taxpayers by each activity as compared to the prior fiscal year.

**Table 3
Governmental Activities
(in Thousands)**

| | Total Cost of Services | Total Cost of Services | Total Cost of Services | Total Cost of Services |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | Fiscal | Fiscal | Fiscal | Fiscal |
| | Year 2015 | Year 2014 (1) | Year 2015 | Year 2014 (1) |
| Instruction | \$ 22,387,945 | \$ 20,830,729 | \$ 7,185,055 | \$ 4,287,958 |
| Support Services: | | | | |
| Pupil Services | 1,237,309 | 1,043,352 | 965,003 | 769,615 |
| Improvement of Instructional Services | 1,360,917 | 1,503,287 | 689,515 | 841,333 |
| Educational Media Services | 546,228 | 527,964 | 67,224 | -3,020 |
| General Administration | 537,240 | 404,377 | -135,247 | -363,265 |
| School Administration | 2,026,798 | 1,907,402 | 994,803 | 869,568 |
| Business Administration | 281,845 | 254,265 | 278,806 | 249,082 |
| Maintenance and Operation of Plant | 2,414,408 | 2,241,216 | 1,300,183 | 1,064,473 |
| Student Transportation Services | 2,165,454 | 2,147,174 | 1,340,974 | 1,321,833 |
| Central Support Services | | 2,140 | | 2,140 |
| Other Support Services | 277,573 | 215,426 | 222,335 | 16,635 |
| Operations of Non-Instructional Services: | | | | |
| Community Services | 356,287 | 284,687 | 233,599 | 185,452 |
| Food Services | 1,821,868 | 1,622,278 | 247,331 | 24,476 |
| Interest on Short-Term and Long-Term Debt | 184,021 | 263,096 | 184,021 | 263,096 |
| Total Expenses | <u>\$ 35,597,893</u> | <u>\$ 33,247,393</u> | <u>\$ 13,573,602</u> | <u>\$ 9,529,376</u> |

(1) Fiscal year 2014 balances do not reflect the effect of the restatement of Net Position. See Note 2 of the Notes to the Basic Financial Statements for additional information.

Expenses increased about \$2.35 million from the prior year, while the net costs of providing services increased over \$4.0 million. This perceived disparity in funding costs in fiscal year 2015 occurred because total program revenues decreased \$1.7 million from the prior year, largely from a decrease in State Funds in fiscal year 2015 for Capital Grants associated with new construction that was completed in fiscal year 2015.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Information about the School District's governmental funds is presented starting on Exhibit "C" of this report. Governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of about \$38.3 million and total expenses of \$39.9 million in fiscal year 2015. Total governmental fund balances of \$7.0 million at June 30, 2015, decreased about \$1.6 million from the prior year primarily because the District expended funds from Capital Projects reserves that that been accumulated in prior years.

General Fund Budget Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2015, the School District amended its general fund budget as needed.

The School District budget is adopted at the aggregate level and maintained at the program, function, object, and site levels to facilitate budgetary control. The budgeting systems are designed to control the total budget, but provide flexibility to meet the ongoing programmatic needs. The budgeting systems are also designed to control total site budgets but provide flexibility for site management as well.

For the General Fund, the final actual revenues of \$34.3 million exceeded the final budgeted revenues by \$2.4 million. This variance was primarily due to actual revenues for State revenues exceeding the final budgeted amount by \$0.5 million, Federal funds exceeding the final budget amount by \$0.8 million, revenues for Charges for Services exceeding the final budget by \$0.5 million and miscellaneous revenues exceeding final budget by over \$0.6 million.

The General Fund's final actual expenditures of \$34.5 million exceeded the final budget amount of \$34.1 million by roughly \$0.4 million. This variance cannot be identified with any specific functional area of expenditures.

It should be noted the District intended to use about \$2.1 million of prior year reserves in funding its 2015 General Fund budget. However, because revenues were higher than projected, only about \$0.2 million of prior year's reserves were actually needed to fully fund expenditures in fiscal year 2015.

Additionally, the District's budget did not include the activities of the school principals' accounts in fiscal year 2015. This omission effectively understated the District's overall projected revenues and expenditures.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2015, the School District had \$65.0 million invested in capital assets, net of accumulated depreciation, all in governmental activities. These assets are made up of a broad range of items including buildings; land; land improvements; intangible assets; and food service, transportation and maintenance equipment. Table 4 reflects a summary of these balances, net of accumulated depreciation, as compared to the prior fiscal year.

**Table 4
Capital Assets
(Net of Depreciation)**

| | Governmental Activities | |
|-----------------------------------|-------------------------|-------------------------|
| | Fiscal Year 2015 | Fiscal Year 2014 (1) |
| Land | \$ 1,338,157 | \$ 1,370,442 |
| Construction In Progress | 500,231 | 15,043,816 |
| Building and Improvements | 7,065,943 | 6,698,795 |
| Improvements Other Than Buildings | 54,072,534 | 40,243,122 |
| Equipment | 1,993,446 | 1,712,809 |
| Intangible Assets | 56,963 | 57,698 |
| Total | <u>\$ 65,027,274</u> | <u>\$ 65,126,682</u> |

(1) Fiscal year 2014 balances do not reflect the effect of the restatement of Net Position.

See Note 2 of the Notes to the Basic Financial Statements for additional information.

Additional information about the School District's Capital Assets can be found in the Notes to the Basic Financial Statements.

Long-Term Debt

At June 30, 2015, the School District had \$8.2 million in total debt outstanding which consisted of \$7.5 million in bond debt and \$0.7 million in unamortized bond premiums. Table 5 summarizes the School District's debt as compared to the prior fiscal year.

**FRANKLIN COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Table 5
Debt at June 30**

| | Governmental Activities | |
|--------------------------|-------------------------|----------------------|
| | Fiscal Year 2015 | Fiscal Year 2014 |
| Bonds Payable | \$ 7,520,000 | \$ 9,920,000 |
| Unamortized Bond Premium | 677,262 | 903,016 |
| Total | <u>\$ 8,197,262</u> | <u>\$ 10,823,016</u> |

Additional information about the School District's debt can be found in the Notes to the Basic Financial Statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Currently known circumstances that are expected to have a significant effect on financial position or results of operations in future years are as follows:

- The District is financially stable. The School District's operating millage for fiscal year 2015 was 18.618, which produced almost \$548,000 per mill. If needed, the District plans to fund additional capital outlays with the one percent local sales tax revenue and state capital outlay grants. The voters of Franklin County have recently approved a continuation of the one percent local sales tax for school capital projects through December 31, 2022.
- The economy continues to improve. Revenues for operations from property taxes increased 7% and general fund state revenue increased almost 12% from the prior year. The General Fund had an unassigned fund balance of \$2.6 million at June 30, 2015, which is a decrease of about \$165 thousand from the prior year, even though the District projected a decrease of about \$2.1 million. The Board anticipates significant financial challenges going forward due to expected continued higher health insurance and benefit costs. In spite of these challenges, the School District will continue to be a good steward of tax dollars while providing a quality educational opportunity.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Tom Porter, Finance Director, Franklin County Board of Education, 280 Busch Road, Carnesville, Georgia 30521. You may also email your questions to Mr. Porter at tom.porter@franklin.k12.ga.

FRANKLIN COUNTY BOARD OF EDUCATION

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FRANKLIN COUNTY BOARD OF EDUCATION
STATEMENT OF NET POSITION
JUNE 30, 2015

EXHIBIT "A"

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 7,325,320.18 |
| Investments | 2,325,345.22 |
| Accounts Receivable, Net | |
| Taxes | 847,424.33 |
| State Government | 2,127,382.31 |
| Federal Government | 1,001,200.19 |
| Local | 17,888.89 |
| Other | 2,386.97 |
| Inventories | 31,426.36 |
| Capital Assets, Non-Depreciable | 1,838,388.39 |
| Capital Assets, Depreciable (Net of Accumulated Depreciation) | <u>63,188,886.22</u> |
| Total Assets | <u>78,705,649.06</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Related to Defined Benefit Pension Plan | <u>2,338,991.00</u> |
| <u>LIABILITIES</u> | |
| Accounts Payable | 1,828,031.36 |
| Salaries and Benefits Payable | 3,698,012.56 |
| Payroll Withholdings Payable | 508,522.53 |
| Interest Payable | 115,258.33 |
| Contracts Payable | 374,389.00 |
| Retainages Payable | 45,079.00 |
| Long-Term Liabilities | |
| Due Within One Year | 2,825,753.88 |
| Due in More Than One Year | 5,371,507.78 |
| Net Pension Liability | <u>20,833,572.00</u> |
| Total Liabilities | <u>35,600,126.44</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Related to Defined Benefit Pension Plan | <u>7,884,616.00</u> |
| <u>NET POSITION</u> | |
| Net Investment in Capital Assets | 58,377,892.52 |
| Restricted for | |
| Continuation of Federal Programs | 544,202.27 |
| Debt Service | 1,233,106.95 |
| Capital Projects | 2,076,435.37 |
| Unrestricted (Deficit) | <u>-24,671,739.49</u> |
| Total Net Position | <u>\$ 37,559,897.62</u> |

The notes to the basic financial statements are an integral part of this statement.

FRANKLIN COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

| | <u>EXPENSES</u> | <u>CHARGES FOR SERVICES</u> |
|--|----------------------|---------------------------------|
| <u>GOVERNMENTAL ACTIVITIES</u> | | |
| Instruction | \$ 22,387,944.75 | \$ 41,333.90 |
| Support Services | | |
| Pupil Services | 1,237,308.62 | |
| Improvement of Instructional Services | 1,360,917.24 | |
| Educational Media Services | 546,228.41 | |
| General Administration | 537,240.42 | |
| School Administration | 2,026,797.69 | |
| Business Administration | 281,844.93 | |
| Maintenance and Operation of Plant | 2,414,407.69 | 45,650.00 |
| Student Transportation Services | 2,165,454.33 | 26,760.85 |
| Other Support Services | 277,573.45 | |
| Operations of Non-Instructional Services | | |
| Enterprise Operations | 356,286.77 | 122,687.95 |
| Food Services | 1,821,867.86 | 303,893.54 |
| Interest on Short-Term and Long-Term Debt | 184,021.11 | |
| | <u>35,597,893.27</u> | <u>540,326.24</u> |
| Total Governmental Activities | \$ | \$ |
| General Revenues | | |
| Taxes | | |
| Property Taxes | | |
| For Maintenance and Operations | | |
| Sales Taxes | | |
| Special Purpose Local Option Sales Tax | | |
| For Debt Services | | |
| Other Sales Tax | | |
| Grants and Contributions not Restricted to Specific Programs | | |
| Investment Earnings | | |
| Miscellaneous | | |
| Special Items | | |
| Loss on Disposal of Capital Assets | | |
| | | |
| Total General Revenues and Special Items | | |
| | | |
| Change in Net Position | | |
| | | |
| Net Position - Beginning of Year, Restated | | |
| | | |
| Net Position - End of Year | | |

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT "B"

| PROGRAM REVENUES | | NET (EXPENSES) | |
|--|--|--|-----------------------------|
| OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | REVENUES AND CHANGES IN NET POSITION | |
| \$ 14,989,439.68 | \$ 172,115.60 | \$ | -7,185,055.57 |
| 272,305.47 | | | -965,003.15 |
| 671,402.21 | | | -689,515.03 |
| 479,004.00 | | | -67,224.41 |
| 672,488.00 | | | 135,247.58 |
| 1,031,995.00 | | | -994,802.69 |
| 3,039.29 | | | -278,805.64 |
| 1,068,574.56 | | | -1,300,183.13 |
| 643,279.90 | 154,440.00 | | -1,340,973.58 |
| 55,238.60 | | | -222,334.85 |
| | | | -233,598.82 |
| 1,270,642.92 | | | -247,331.40 |
| | | | -184,021.11 |
| <u>\$ 21,157,409.63</u> | <u>\$ 326,555.60</u> | | <u>-13,573,601.80</u> |
| | | | 10,250,537.05 |
| | | | 3,314,493.76 |
| | | | 155,378.88 |
| | | | 1,154,671.00 |
| | | | 27,972.43 |
| | | | 661,681.86 |
| | | | <u>-148,809.34</u> |
| | | | <u>15,415,925.64</u> |
| | | | 1,842,323.84 |
| | | | <u>35,717,573.78</u> |
| | | \$ | <u><u>37,559,897.62</u></u> |

FRANKLIN COUNTY BOARD OF EDUCATION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

EXHIBIT "C"

| | GENERAL FUND | DISTRICT-WIDE CAPITAL PROJECTS FUND | DEBT SERVICE FUND | TOTAL |
|---|------------------------|--|-------------------------|-------------------------|
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$ 6,088,712.66 | \$ 1,236,607.52 | | \$ 7,325,320.18 |
| Investments | | 1,259,295.85 | \$ 1,066,049.37 | 2,325,345.22 |
| Accounts Receivable, Net | | | | |
| Taxes | 565,108.42 | | 282,315.91 | 847,424.33 |
| State Government | 2,127,382.31 | | | 2,127,382.31 |
| Federal Government | 1,001,200.19 | | | 1,001,200.19 |
| Local | 17,888.89 | | | 17,888.89 |
| Other | 2,386.97 | | | 2,386.97 |
| Inventories | 31,426.36 | | | 31,426.36 |
| Total Assets | <u>\$ 9,834,105.80</u> | <u>\$ 2,495,903.37</u> | <u>\$ 1,348,365.28</u> | <u>\$ 13,678,374.45</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts Payable | \$ 1,828,031.36 | | | \$ 1,828,031.36 |
| Salaries and Benefits Payable | 3,698,012.56 | | | 3,698,012.56 |
| Payroll Withholdings Payable | 508,522.53 | | | 508,522.53 |
| Contracts Payable | | \$ 374,389.00 | | 374,389.00 |
| Retainages Payable | | 45,079.00 | | 45,079.00 |
| Total Liabilities | <u>6,034,566.45</u> | <u>419,468.00</u> | | <u>6,454,034.45</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | | |
| Unavailable Revenue - Property Taxes | <u>196,836.54</u> | | | <u>196,836.54</u> |
| <u>FUND BALANCES</u> | | | | |
| Nonspendable | 31,426.36 | | | 31,426.36 |
| Restricted | 512,775.91 | 2,076,435.37 | \$ 1,348,365.28 | 3,937,576.56 |
| Committed | 461,636.44 | | | 461,636.44 |
| Unassigned | <u>2,596,864.10</u> | | | <u>2,596,864.10</u> |
| Total Fund Balances | <u>3,602,702.81</u> | <u>2,076,435.37</u> | <u>1,348,365.28</u> | <u>7,027,503.46</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 9,834,105.80</u> | <u>\$ 2,495,903.37</u> | <u>\$ 1,348,365.28</u> | <u>\$ 13,678,374.45</u> |

The notes to the basic financial statements are an integral part of this statement.

FRANKLIN COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 7,027,503.46

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:

| | | | |
|----------------------------|----|-----------------------|---------------|
| Land | \$ | 1,338,157.39 | |
| Construction in Progress | | 500,231.00 | |
| Land Improvements | | 8,157,163.07 | |
| Buildings and Improvements | | 63,627,694.48 | |
| Equipment | | 5,869,190.94 | |
| Intangible Assets | | 141,285.31 | |
| Accumulated Depreciation | | <u>-14,606,447.58</u> | |
| Total Capital Assets | | | 65,027,274.61 |

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

| | | | |
|-----------------------|--|--|----------------|
| Net Pension Liability | | | -20,833,572.00 |
|-----------------------|--|--|----------------|

Deferred Outflows and Inflows of Resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

-5,545,625.00

Taxes that are not available to pay for current period expenditures are deferred in the governmental funds.

| | | | |
|----------------|--|--|------------|
| Property Taxes | | | 196,836.54 |
|----------------|--|--|------------|

Long-Term Liabilities, including Bonds Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. These consist of:

| | | | |
|------------------------------------|----|--------------------|----------------------|
| Bonds Payable | \$ | -7,520,000.00 | |
| Accrued Interest Payable | | -115,258.33 | |
| Bond Premiums, Net of Amortization | | <u>-677,261.66</u> | |
| Total Long-Term Liabilities | | | <u>-8,312,519.99</u> |

Net Position of Governmental Activities (Exhibit "A") \$ 37,559,897.62

The notes to the basic financial statements are an integral part of this statement.

FRANKLIN COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

EXHIBIT "E"

| | GENERAL FUND | DISTRICT-WIDE CAPITAL PROJECTS FUND | DEBT SERVICE FUND | TOTAL |
|--|------------------|--|-------------------------|------------------|
| <u>REVENUES</u> | | | | |
| Property Taxes | \$ 10,211,251.55 | | | \$ 10,211,251.55 |
| Sales Taxes | 155,378.88 | | \$ 3,314,493.76 | 3,469,872.64 |
| State Funds | 19,400,880.24 | \$ 692,135.80 | | 20,093,016.04 |
| Federal Funds | 3,277,056.33 | | | 3,277,056.33 |
| Charges for Services | 540,326.24 | | | 540,326.24 |
| Investment Earnings | 24,399.94 | | 3,572.49 | 27,972.43 |
| Miscellaneous | 661,681.86 | | | 661,681.86 |
| Total Revenues | 34,270,975.04 | 692,135.80 | 3,318,066.25 | 38,281,177.09 |
| <u>EXPENDITURES</u> | | | | |
| Current | | | | |
| Instruction | 21,668,422.26 | | | 21,668,422.26 |
| Support Services | | | | |
| Pupil Services | 1,243,214.68 | | | 1,243,214.68 |
| Improvement of Instructional Services | 1,406,795.24 | | | 1,406,795.24 |
| Educational Media Services | 564,579.41 | | | 564,579.41 |
| General Administration | 553,632.61 | | | 553,632.61 |
| School Administration | 2,021,375.76 | | | 2,021,375.76 |
| Business Administration | 262,726.58 | | | 262,726.58 |
| Maintenance and Operation of Plant | 2,408,075.18 | | | 2,408,075.18 |
| Student Transportation Services | 2,047,008.63 | 10,588.00 | | 2,057,596.63 |
| Other Support Services | 277,573.45 | | | 277,573.45 |
| Enterprise Operations | 356,286.77 | | | 356,286.77 |
| Food Services Operation | 1,667,344.07 | | | 1,667,344.07 |
| Capital Outlay | | 2,546,275.21 | | 2,546,275.21 |
| Debt Services | | | | |
| Principal | | | 2,400,000.00 | 2,400,000.00 |
| Interest | | | 441,774.99 | 441,774.99 |
| Total Expenditures | 34,477,034.64 | 2,556,863.21 | 2,841,774.99 | 39,875,672.84 |
| Excess of Revenues over (under) Expenditures | -206,059.60 | -1,864,727.41 | 476,291.26 | -1,594,495.75 |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers In | | 727,153.97 | | 727,153.97 |
| Transfers Out | | | -727,153.97 | -727,153.97 |
| Total Other Financing Sources (Uses) | | 727,153.97 | -727,153.97 | 0.00 |
| Net Change in Fund Balances | -206,059.60 | -1,137,573.44 | -250,862.71 | -1,594,495.75 |
| Fund Balances - Beginning | 3,808,762.41 | 3,214,008.81 | 1,599,227.99 | 8,621,999.21 |
| Fund Balances - Ending | \$ 3,602,702.81 | \$ 2,076,435.37 | \$ 1,348,365.28 | \$ 7,027,503.46 |

The notes to the basic financial statements are an integral part of this statement.

FRANKLIN COUNTY BOARD OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2015

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ -1,594,495.75

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | | |
|--|----|----------------------|------------|
| Capital Outlay | \$ | 1,763,961.29 | |
| Depreciation Expense | | <u>-1,235,458.94</u> | |
| Excess of Capital Outlay over Depreciation Expense | | | 528,502.35 |

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net position. -148,809.34

Grant Revenues from the Georgia State Financing and Investment Commission not available to pay current year expenditures are not required to be deferred in the Statement of Activities as they are in the Fund Statements and were recorded as revenue in the prior year. -692,135.80

Taxes reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 39,285.50

Repayment of Long-Term Debt is reported as an expenditure in Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year, these amounts consist of:

| | | | |
|---------------------------------|----|-------------------|--------------|
| Bond Principal Retirements | \$ | 2,400,000.00 | |
| Amortization of Bond Premiums | | <u>225,753.88</u> | |
| Total Long-Term Debt Repayments | | | 2,625,753.88 |

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds. The net of these adjustments are:

| | | | |
|---------------------------------------|----|---------------------|---------------------|
| Accrued Interest on Issuance of Bonds | \$ | 32,000.00 | |
| Pension Expense | | <u>1,052,223.00</u> | |
| Total Additional Expenditures | | | <u>1,084,223.00</u> |

Change in Net Position of Governmental Activities (Exhibit "B") \$ 1,842,323.84

FRANKLIN COUNTY BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

EXHIBIT "G"

| | AGENCY FUNDS |
|---------------------------|---------------------------|
| | <hr/> |
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | \$ 140,869.77 |
| Investments | <hr/> 21,905.71 |
| | |
| Total Assets | \$ <hr/> <hr/> 162,775.48 |
| <u>LIABILITIES</u> | |
| Funds Held for Others | \$ <hr/> <hr/> 162,775.48 |

The notes to the basic financial statements are an integral part of this statement.

NOTE 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Franklin County Board of Education (School District) was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The Board is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Franklin County Board of Education.

DISTRICT-WIDE STATEMENTS:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the School District's funds, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

- General Fund is the School District's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.
- District-wide Capital Projects Fund accounts for and reports financial resources including Education Special Purpose Local Option Sales Tax (ESPLOST), Bond Proceeds and grants from Georgia State Financing and Investment Commission that are restricted, committed or assigned to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned including taxes (sales) legally restricted for the payment of general long-term principal and interest.

The School District reports the following fiduciary fund type:

- Agency funds account for assets held by the School District as an agent for various funds, governments, clubs, or individuals.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. The School District considers all intergovernmental revenues to be available if they are collected within 120 days after year-end. Property taxes, sales taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The School District funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted resources available to finance the program. It is the School District's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

RESTATEMENT OF PRIOR YEAR NET POSITION

For fiscal year 2015, the School District made several prior period adjustments due to the correction of an error in amounts recorded as Capital Assets and the adoption of GASB Statement No. 68 and GASB Statement No. 71, as described in "New Accounting Pronouncements" below, which require the restatement of the June 30, 2014, Net Position in Governmental Activities. The result is a decrease in Net Position at July 1, 2014 of \$27,910,520.05. These changes are in accordance with generally accepted accounting principles.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

| | |
|---|-------------------------|
| Net position, July 1, 2014 as previously reported | \$ 63,628,093.83 |
| Prior Period adjustment | |
| Correction for error in Recording Construction in progress | -479,100.05 |
| Implementation of GASB 68: | |
| Net Pension Liability (measurement date) | |
| Teachers' Retirement System | -29,497,360.00 |
| Deferred Outflows - School District's contribution made during fiscal year 2014 | |
| Teachers' Retirement System | 2,065,940.00 |
| Net Position, July 1, 2014, as restated | <u>\$ 35,717,573.78</u> |

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. The adoption of this statement has a significant impact on the School District's financial statements. As noted above the School District restated beginning Net Position for the cumulative effect of this accounting change.

In fiscal year 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also requires that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The School District did not have any activities of this type during the fiscal year and the adoption of this statement does not have a significant impact on the School District's financial statements.

In fiscal year 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB No. 68*. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of statement. This statement amends paragraph 137 of Statement No. 68 which limited recognition of pension-related deferred inflows of resources at the transition to circumstances in which it is practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions. The adoption of this statement has a significant impact on the School District's financial statements. As noted above the School District restated beginning Net Position for the cumulative effect of this accounting change.

CASH AND CASH EQUIVALENTS

Composition of Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

INVESTMENTS

Composition of Investments

Investments made by the School District in nonparticipating interest-earning contracts (such as certificates of deposit) and repurchase agreements are reported at cost. Participating interest-earning contracts and money market investments with a maturity at purchase of one year or less are reported at amortized cost. Both participating interest-earning contracts and money market investments with a maturity at purchase greater than one year are reported at fair value. The Official Code of Georgia Annotated Section 36-83-4 authorizes the School District to invest its funds. In selecting among options for investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity. Funds may be invested in the following:

- (1) Obligations issued by the State of Georgia or by other states,
- (2) Obligations issued by the United States government,
- (3) Obligations fully insured or guaranteed by the United States government or a United States government agency,
- (4) Obligations of any corporation of the United States government,
- (5) Prime banker's acceptances,
- (6) The local government investment pool (Georgia Fund 1) administered by the State of Georgia, Office of the State Treasurer,
- (7) Repurchase agreements, and
- (8) Obligations of other political subdivisions of the State of Georgia.

The School District does not have a formal policy regarding investment policies that address credit risks, custodial credit risks, concentration of credit risks, interest rate risks or foreign currency risks.

RECEIVABLES

Receivables consist of amounts due from property and sales taxes, grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

PROPERTY TAXES

The Franklin County Board of Commissioners adopted the property tax levy for the 2014 tax digest year (calendar year) on July 19, 2014 (levy date) based on property values as of January 1, 2014. Taxes were due on November 15, 2014 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2014 tax digest are reported as revenue in the governmental funds for fiscal year 2015. The Franklin County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2015, for maintenance and operations amounted to \$9,770,985.86.

The tax millage rate levied for the 2014 tax year (calendar year) for the Franklin County Board of Education was as follows (a mill equals \$1 per thousand dollars of assessed value):

| | |
|-------------------|---------------------|
| School Operations | <u>18.618</u> mills |
|-------------------|---------------------|

Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, amounted to \$440,265.69 during fiscal year ended June 30, 2015.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
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EXHIBIT "H"

SALES TAXES

Education Special Purpose Local Option Sales Tax, at the fund reporting level, during the year amounted to \$3,314,493.76 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years. The most recent authorization expires on December 31, 2017.

INVENTORIES

Food Inventories

On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (first-in, first-out). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received, and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The School District does not capitalize book collections or works of art. During fiscal year 2015, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School District.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

| | Capitalization Policy | Estimated Useful Life |
|----------------------------|--------------------------|--------------------------|
| Land | Any Amount | N/A |
| Land Improvements | \$ 10,000.00 | 20 to 80 years |
| Buildings and Improvements | \$ 20,000.00 | 25 to 80 years |
| Equipment | \$ 5,000.00 | 5 to 50 years |
| Intangible Assets | \$ 20,000.00 | Estimated Life |

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position and/or the balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. Under the full accrual method of accounting, the School District has reported deferred outflows of resources related to a defined benefit pension plan, as discussed in Note 15 - Retirement Plans.

In addition to liabilities, the statement of net position and/or the balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. Under the full accrual method of accounting, the School District has reported deferred inflows of resources related to a defined benefit pension plan, as discussed in Note 15 - Retirement Plans. This item is reported only in the District-wide Statement of Net Position. Additionally, the School District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reporting only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and these amounts are deferred and will be recognized as an inflow of resources (revenue) in the period in which the amounts become available.

GENERAL OBLIGATION BONDS

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In the District-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are recognized as an outflow of resources in the fiscal year in which the bonds are issued.

In the fund financial statements, the School District recognizes bond premiums and discounts, as well as bond issuance costs during the fiscal year bonds are issued. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The outstanding amount of these bonds is recorded in the Statement of Net Position.

PENSIONS

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of Georgia (TRS), and the Public School Employees Retirement System (PSERS) and additions to/deductions from TRS/PSERS fiduciary net position have been determined on the same basis as they are reported by TRS/PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 15 - Retirement Plans.

NET POSITION

The School District's Net Position in the District-wide Statements is classified as follows:

Net Investment in Capital Assets - This represents the School District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of Net Investment in Capital Assets.

Restricted Net Position - This represents resources for which the School District is legally or contractually obligated to spend resources for bus replacement, continuation of Federal programs, debt service and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted Net Position - Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of Net Investment of Capital Assets and Restricted Net Position. Included in the net deficit reported is the School District's Net Pension liability of \$20,833.572.00 which is required for financial reporting.

FUND BALANCES

The School District's fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Constraints are placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.

Unassigned – The residual classification for the General Fund. This classification represents fund balances that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

Fund Balances of the Governmental Funds at June 30, 2015, are as follows:

| | | |
|----------------------------------|----|----------------------------|
| Nonspendable | | |
| Inventories | \$ | 31,426.36 |
| Restricted | | |
| Continuation of Federal Programs | \$ | 512,775.91 |
| Capital Projects | | 2,076,435.37 |
| Debt Service | | <u>1,348,365.28</u> |
| | | 3,937,576.56 |
| Committed | | |
| School Activity Accounts | | 461,636.44 |
| Unassigned | | <u>2,596,864.10</u> |
| Fund Balance, June 30, 2015 | \$ | <u><u>7,027,503.46</u></u> |

It is the goal of the School District to achieve and maintain a committed, assigned, and unassigned fund balance in the general fund at fiscal year-end of not less than 5% of revenues not to exceed 15% of the total budget of the subsequent fiscal year, in compliance with Official Code of Georgia Annotated Section 20-2-167(a)5. If the unassigned fund balance at fiscal year end falls below the goal, the School District shall develop a restoration plan to achieve and maintain the minimum fund balance.

When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3: BUDGETARY DATA

The budget is a complete financial plan for the School District's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general, debt service, and capital projects funds. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts, is prepared and adopted by fund and function. The legal level of budgetary control was established by the Board at the aggregate function level. The budget for the General Fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the School District's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board, such budget is advertised at least once in a newspaper of general circulation in the locality, as well as the School District's website. At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of Official Code of Georgia Annotated Section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

Only the Board is authorized to approve adjustments to the approved budget for revenue or expenditures in any budget function for any fund.

See Schedule 4 – General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual for a detail of any over/under expenditures during fiscal year 2015.

NOTE 4: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2015, School District had deposits with a carrying amount of \$7,488,095.66, which includes \$21,905.71 in Certificates of Deposit that are reported as Investments, and a bank balance of \$7,130,605.39. The bank balances insured by Federal depository insurance were \$733,100.30 and the bank balances collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent in the School District's name were \$6,397,505.09.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
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EXHIBIT "H"

CATEGORIZATION OF INVESTMENTS

At June 30, 2015, the carrying value of the School District's total investments was \$2,347,250.93, which is materially the same as fair value. This includes \$21,905.71 invested in Certificates of Deposit, which are collateralized in the same manner as other cash deposits. This remaining balance consisted entirely of funds invested in the Georgia Fund 1, (local government investment pool), administered by the State of Georgia, Office of the State Treasurer which is not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of the State Treasurer for the Georgia Fund 1 (Primary Liquidity Portfolio) does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

The Primary Liquidity Portfolio consists of Georgia Fund 1 which is not registered with the SEC as an investment company and does not operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, \$1.00 per share. The pool is an AAAf rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2015, was 56 days.

NOTE 5: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. See Note 2 – Inventories.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

| | Restated Balances July 1, 2014 | Increases | Decreases | Transfers | Balances June 30, 2015 |
|------------------------------------|--------------------------------------|---------------|---------------|-------------------|---------------------------|
| Governmental Activities | | | | | |
| Capital Assets | | | | | |
| Not Being Depreciated: | | | | | |
| Land | \$ 1,338,157.39 | | | | \$ 1,338,157.39 |
| Construction in Progress | 14,564,716.28 | \$ 777,342.64 | \$ 0.00 | \$ -14,841,827.92 | 500,231.00 |
| Total Capital Assets | | | | | |
| Not Being Depreciated | 15,902,873.67 | 777,342.64 | 0.00 | -14,841,827.92 | 1,838,388.39 |
| Capital Assets Being Depreciated | | | | | |
| Land Improvements | 7,723,495.19 | 480,302.66 | 46,634.78 | | 8,157,163.07 |
| Buildings and Improvements | 49,072,236.70 | 78,864.00 | 118,135.14 | 14,594,728.92 | 63,627,694.48 |
| Equipment | 5,470,616.86 | 414,416.30 | 262,941.22 | 247,099.00 | 5,869,190.94 |
| Intangible Assets | 128,249.62 | 13,035.69 | | | 141,285.31 |
| Less Accumulated Depreciation for: | | | | | |
| Land Improvements | 992,415.85 | 116,009.64 | 17,205.55 | | 1,091,219.94 |
| Buildings and Improvements | 8,829,115.04 | 800,892.24 | 74,846.85 | | 9,555,160.43 |
| Equipment | 3,757,808.30 | 304,785.67 | 186,849.40 | | 3,875,744.57 |
| Intangible Assets | 70,551.25 | 13,771.39 | | 0.00 | 84,322.64 |
| Total Capital Assets | | | | | |
| Being Depreciated, Net | 48,744,707.93 | -248,840.29 | 148,809.34 | 14,841,827.92 | 63,188,886.22 |
| Total Governmental Activity-Net | \$ 64,647,581.60 | \$ 528,502.35 | \$ 148,809.34 | \$ 0.00 | \$ 65,027,274.61 |

Current year depreciation expense by function is as follows:

| | |
|------------------------------------|-----------------|
| Instruction | \$ 872,277.13 |
| Support Services | |
| Educational Media Services | \$ 16,387.26 |
| School Administration | 47,890.27 |
| Business Administration | 16,213.94 |
| Maintenance and Operation of Plant | 8,179.08 |
| Student Transportation Services | 179,908.52 |
| Food Services | 268,579.07 |
| | 94,602.74 |
| | \$ 1,235,458.94 |

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
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EXHIBIT "H"

NOTE 7: INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015, consisted of the following:

| <u>Transfers to</u> | <u>Transfers From</u> <u>Debt Service</u> <u>Fund</u> |
|-------------------------------------|---|
| District-wide Capital Projects Fund | \$ <u>727,153.97</u> |

Transfers are used to move sales tax revenues collected by the Debt Service Fund to the District-wide Capital Projects Fund as supplemental funding for capital construction projects,

NOTE 8: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God and unemployment compensation.

The School District participates in the Georgia School Boards Association Risk and Insurance Management System, a public entity risk pool organized on July 1, 1994, to develop and administer a plan to reduce risk of loss on account of general liability, motor vehicle liability, or property damage, including safety engineering and other loss prevention and control techniques, and to administer one or more groups of self-insurance funds, including the processing and defense of claims brought against members of the system. The School District pays an annual premium to the system for its general insurance coverage. Additional coverage is provided through agreements by the system with other companies according to their specialty for property, boiler and machinery (including coverage for flood and earthquake), general liability (including coverage for sexual harassment, molestation and abuse), errors and omissions, crime and automobile risks. Payment of excess insurance for the system varies by line of coverage.

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims with expenses/expenditures and liability is reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

Changes in the unemployment compensation claims liability during the last two fiscal years are as follows:

| | <u>Beginning of Year</u> <u>Liability</u> | <u>Claims and</u> <u>Changes in</u> <u>Estimates</u> | <u>Claims</u> <u>Paid</u> | <u>End of Year</u> <u>Liability</u> |
|------|--|--|------------------------------|--|
| 2014 | \$ 0.00 | \$ 14,992.00 | \$ 14,992.00 | \$ 0.00 |
| 2015 | \$ 0.00 | \$ 990.00 | \$ 990.00 | \$ 0.00 |

FRANKLIN COUNTY BOARD OF EDUCATION
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The School District participates in the Georgia School Boards Association Workers' Compensation Fund, a public entity risk pool organized on July 1, 1992, to develop, implement, and administer a program of workers' compensation self-insurance for its member organizations. The School District pays an annual premium to the Fund for its Workers' Compensation insurance coverage. Excess insurance coverage is provided through an agreement by the Fund with the Safety National Casualty Corporation to provide coverage for potential losses sustained by the Fund in excess of \$550 thousand loss per occurrence, up to the statutory limit. Employers' Liability insurance coverage is also provided by Safety National Casualty Corporation to provide coverage for potential losses sustained by the Fund in excess of \$550 thousand loss per occurrence, up to \$2 million. In addition to the \$550,000 per occurrence retention, the Fund also retains an additional \$200,000 per year corridor retention.

The School District has purchased a surety bond to provide additional insurance coverage as follows:

| <u>Position Covered</u> | <u>Amount</u> |
|-------------------------|---------------|
| Superintendent | \$ 100,000.00 |

NOTE 9: LONG-TERM LIABILITIES

GENERAL OBLIGATION DEBT OUTSTANDING

General Obligation Bonds currently outstanding are as follows:

| <u>Purpose</u> | <u>Interest Rates</u> | <u>Amount</u> |
|----------------------------------|-----------------------|------------------------|
| General Government - Series 2012 | 3.00% - 5.00% | \$ <u>7,520,000.00</u> |

Voters have authorized \$2,880,000.00 in general obligation debt for capital outlay which was not issued as of June 30, 2015.

The changes in Long-Term Liabilities during the fiscal year ended June 30, 2015, were as follows:

| Governmental Activities | | | | | |
|---------------------------|-------------------------|----------------|------------------------|--------------------------|------------------------|
| | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 | Due Within One Year |
| G.O. Bonds | \$ 9,920,000.00 | \$ 0.00 | \$ 2,400,000.00 | \$ 7,520,000.00 | \$ 2,600,000.00 |
| Unamortized Bond Premiums | 903,015.54 | | 225,753.88 | 677,261.66 | 225,753.88 |
| | <u>\$ 10,823,015.54</u> | <u>\$ 0.00</u> | <u>\$ 2,625,753.88</u> | <u>\$ 8,197,261.66</u> | <u>\$ 2,825,753.88</u> |

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
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EXHIBIT "H"

At June 30, 2015, payments due by fiscal year which includes principal and interest for these items are as follows:

| <u>Fiscal Year Ended June 30:</u> | <u>General Obligation Debt</u> | | <u>Unamortized Bond Premium</u> |
|-----------------------------------|--------------------------------|----------------------|-------------------------------------|
| | <u>Principal</u> | <u>Interest</u> | |
| 2016 | \$ 2,600,000.00 | \$ 345,775.00 | \$ 225,753.88 |
| 2017 | 2,550,000.00 | 215,775.00 | 225,753.88 |
| 2018 | 2,370,000.00 | 88,275.00 | 225,753.90 |
| Total Principal and Interest | <u>\$ 7,520,000.00</u> | <u>\$ 649,825.00</u> | <u>\$ 677,261.66</u> |

NOTE 10: ON-BEHALF PAYMENTS

The School District has recognized revenues and costs in the amount of \$106,802.34 for retirement contributions paid on the School District's behalf by the following State Agencies.

Georgia Department of Education
Paid to the Teachers' Retirement System of Georgia
For Teachers' Retirement System (TRS) Employer's Cost
In the amount of \$36,853.34

Office of State Treasurer
Paid to the Public School Employees Retirement System
For Public School Employees Retirement (PSERS) Employer's Cost
In the amount of \$69,949.00

Funds paid on behalf of the School District are reported in governmental funds. See Note 15 - Retirement Plans for the State support related to the Net Pension Liability.

NOTE: 11: SIGNIFICANT COMMITMENTS

The following is an analysis of significant outstanding construction or renovation contracts executed by the School District as of June 30, 2015. This project will be completed using local resources.

| <u>Project</u> | <u>Unearned Executed Contracts</u> |
|-------------------------|--|
| Lavonia Roofing Project | \$ <u>135,419.00</u> |

The amount described in this note is not reflected in the basic financial statements.

NOTE 12: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

The School District is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine School District operations. The ultimate disposition of these proceedings is not presently determinable, but is not believed to be material to the basic financial statements.

NOTE 13: SUBSEQUENT EVENTS

In March 2016, voters of Franklin County authorized a special one percent sales tax for a period not to exceed twenty (20) calendar quarters and for the purpose of raising not more than \$20,000,000.00 for the Franklin County School District for the purpose of (i) constructing, renovating, and equipping a Career Technical and Agricultural Education ("CTAE") career academy on the Franklin County High School campus and constructing and equipping additions to Carnesville Elementary School Intermediate campus; (ii) adding to, renovating, repairing, improving, acquiring and equipping school buildings and school system facilities; (iii) acquiring miscellaneous new equipment, fixtures and furnishings for the school system, including computer technology equipment, computer software, school buses and other vehicles, transportation and maintenance equipment, and security and safety equipment; (iv) acquiring land or improving land for new or existing schools; (v) acquiring textbooks, e-books, and e-book readers for the school system; (vi) paying any general obligation debt of the School District issued in conjunction with the imposition of such sales and use tax; and (vii) paying the expenses incident to accomplish the foregoing. The voters also approved the issuance of general obligation debt of Franklin County School District in the principal amount of \$13,395,000.00 for the purposes of funding items (i)-(v) above and for the purpose of payment of a portion of the interest on such debt.

NOTE 14: POST-EMPLOYMENT BENEFITS

GEORGIA SCHOOL PERSONNEL POST-EMPLOYMENT HEALTH BENEFIT FUND

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. For members with fewer than five years of service as of January 1, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012 pay approximately 25% of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2012, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2015:

For certificated teachers, librarians and regional educational service agencies and certain other eligible participants:

July 1, 2014 – June 30, 2015 \$945.00 per member per month

For non-certificated school personnel:

July 1, 2014 – June 30, 2015 \$596.20 per member per month

No additional contribution was required by the Board for fiscal year 2015 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School plan for other post-employment benefits and are subject to appropriation.

The School District's combined active and retiree contributions to the health insurance plans, which equaled the required contribution, for the current fiscal year and the preceding two fiscal years were as follows:

| <u>Fiscal Year</u> | <u>Percentage Contributed</u> | <u>Required Contribution</u> |
|--------------------|-----------------------------------|----------------------------------|
| 2015 | 100% | \$ 3,898,024.90 |
| 2014 | 100% | \$ 3,805,385.33 |
| 2013 | 100% | \$ 3,382,388.32 |

NOTE 15: RETIREMENT PLANS

The Franklin County Board of Education participates in various retirement plans administered by the State of Georgia, as further explained below.

TEACHERS' RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description: All teachers of the District as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) and certain other support personnel as defined by §47-3-63 are provided a pension through the Teachers' Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. The Teachers' Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at www.trsga.com/publications.

Benefits Provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2015. The school district's contractually required contribution rate for the year ended June 30, 2015 was 13.15% of annual school district payroll.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

| Fiscal Year | Percentage Contributed | Required Contribution |
|-------------|---------------------------|--------------------------|
| 2015 | 100% | \$ 2,375,844.00 |
| 2014 | 100% | \$ 2,098,050.00 |
| 2013 | 100% | \$ 1,955,178.00 |

PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM (PSERS)

Plan description: PSERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers' Retirement System of Georgia. The ERS Board of Trustees, plus two additional trustees, administers PSERS. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. PSERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

Benefits provided: A member may retire and elect to receive normal monthly retirement benefits after completion of ten years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of ten years of service.

Upon retirement, the member will receive a monthly benefit of \$14.75, multiplied by the number of years of creditable service. Death and disability benefits are also available through PSERS. Additionally, PSERS may make periodic cost-of-living adjustments to the monthly benefits. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contribution, the member forfeits all rights to retirement benefits.

Contributions: The general assembly makes an annual appropriation to cover the employer contribution to PSERS on behalf of local school employees (bus drivers, cafeteria workers, and maintenance staff). The annual employer contribution required by statute is actuarially determined and paid directly to PSERS by the State Treasurer in accordance with O.C.G.A. §47-4-29(a) and 60(b). Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Individuals who became members prior to July 1, 2012 contribute \$4 per month for nine months each fiscal year. Individuals who became members on or after July 1, 2012 contribute \$10 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the PSERS Board of Trustees.

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

At June 30, 2015, the School District reported a liability of \$20,833,572.00 for its proportionate share of the Net Pension Liability for TRS.

The TRS Net Pension Liability reflected a reduction for support provided to the School District by the State of Georgia for certain public school support personnel. The amount recognized by the School District as its proportionate share of the Net Pension Liability, the related State of Georgia support, and the total portion of the Net Pension Liability that was associated with the School District were as follows:

| | |
|--|-------------------------|
| School District's proportionate share of the Net Pension Liability | \$ 20,833,572.00 |
| State of Georgia's proportionate share of the Net Pension Liability associated with the School District | <u>331,129.00</u> |
| Total | <u>\$ 21,164,701.00</u> |

The Net Pension Liability was measured as of June 30, 2014. The total pension liability used to calculate the Net Pension Liability was based on an actuarial valuation as of June 30, 2013. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The School District's proportion of the Net Pension Liability was based on contributions to TRS during the fiscal year ended June 30, 2014.

At June 30, 2014, the School District's TRS proportion was 0.164905%, which was a decrease of 0.004378% from its proportion measured as of June 30, 2013.

At June 30, 2015, the School District did not have a PSERS liability for a proportionate share of the Net Pension Liability because of a Special Funding Situation with the State of Georgia, which is responsible for the Net Pension Liability of the plan. The amount of the State's proportionate share of the Net Pension Liability associated with the School District is \$269,580.00.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

The PSERS Net Pension Liability was measured as of June 30, 2014. The total pension liability used to calculate the Net Pension Liability was based on an actuarial valuation as of June 30, 2013. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The State's proportion of the Net Pension Liability associated with the School District was based on actuarially determined contributions paid by the State during the fiscal year ended June 30, 2014.

For the year ended June 30, 2015, the School District recognized pension expense of \$1,330,859.00 for TRS and \$23,411.00 for PSERS and revenue of \$44,091.00 for TRS and \$23,441.00 for PSERS. The revenue is support provided by the State of Georgia. For TRS, the State of Georgia support is provided only for certain support personnel.

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | TRS | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Net differences between projected and actual earnings on pension plan investments | | \$ 7,263,025.00 |
| Changes in proportion and differences between School District contributions and proportionate share of contributions | | 621,591.00 |
| School District contributions subsequent to the measurement date | \$ 2,338,991.00 | |
| Total | \$ 2,338,991.00 | \$ 7,884,616.00 |

Franklin County Board of Education contributions subsequent to the measurement date of June 30, 2014 for TRS are reported as deferred outflows of resources and will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | TRS |
|---------------------|------------------|
| 2016 | \$ -1,957,027.00 |
| 2017 | \$ -1,957,027.00 |
| 2018 | \$ -1,957,027.00 |
| 2019 | \$ -1,957,028.00 |
| 2020 | \$ -56,507.00 |

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

Actuarial assumptions: The total pension liability as of June 30, 2014 was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers' Retirement System:

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | 3.75 – 7.00%, average, including inflation |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back two years for males and set back three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

Public School Employees Retirement System:

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table set forward one year for males for the period after service retirement, for dependent beneficiaries, and for deaths in active service, and the RP-2000 Disabled Mortality Table set back two years for males and set forward one year for females for the period after disability retirement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

The long-term expected rate of return on TRS and PSERS pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset class | Target allocation | Long-term expected real rate of return* |
|---------------------------------------|-------------------|---|
| Fixed income | 30.00% | 3.00% |
| Domestic large stocks | 39.70% | 6.50% |
| Domestic mid stocks | 3.70% | 10.00% |
| Domestic small stocks | 1.60% | 13.00% |
| International developed market stocks | 18.90% | 6.50% |
| International emerging market stocks | 6.10% | 11.00% |
| Total | 100.00% | |

* Rates shown are net of the 3.00% assumed rate of inflation

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

EXHIBIT "H"

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

Sensitivity of the Franklin County Board of Education's proportionate share of the Net Pension Liability to changes in the discount rate: The following presents the School District's proportionate share of the Net Pension Liability calculated using the discount rate of 7.50%, as well as what the School District's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Teachers' Retirement System:

| | 1% Decrease (6.50%) | Current discount rate (7.50%) | 1% Increase (8.50%) |
|--|------------------------|----------------------------------|------------------------|
| School District's proportionate share of the | | | |
| Net Pension Liability | \$ 38,393,477.00 | \$ 20,833,572.00 | \$ 6,373,354.00 |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS and PSERS financial report which is publically available at www.trsga.com/publications and <http://www.ers.ga.gov/formspubs/formspubs>.

DEFINED CONTRIBUTION PLAN

The Franklin County Board of Education maintains an employer paid 403(b) annuity plan for the group of employees covered under the Public School Employees Retirement System (PSERS). Recognizing that PSERS was a limited defined contribution and defined benefit plan which did not provide for an adequate retirement for this group of employees, it was the Board's desire to supplement the retirement of this group.

The Board selected Lincoln as the provider of this plan. For each employee covered under PSERS, the Board contributes to the plan an amount equal to the amount contributed by the employee not to exceed \$25.00 per employee per month.

The employee becomes vested in the plan with 5 years of experience. Employees who had already achieved 5 years of experience at the time the plan was implemented were vested upon enrollment.

Funds accumulated in the employer paid accounts are only available to the employee upon termination of employment and 5 years of service to Franklin County Board of Education. If an employee terminates employment prior to achieving 5 years of service, funds paid on behalf of the non-vested employee are credited back to the Board. Funds are vested at 20% per year of service.

The provider for the plan has not changed since its inception.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

| Fiscal Year | Percentage Contributed | Required Contribution |
|-------------|---------------------------|--------------------------|
| 2015 | 100% | \$ 14,205.00 |
| 2014 | 100% | \$ 15,540.00 |
| 2013 | 100% | \$ 14,520.00 |

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FRANKLIN COUNTY BOARD OF EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS' RETIREMENT SYSTEM OF GEORGIA
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE "1"

| | <u>2015</u> |
|---|-------------------------|
| School District's proportion of the net pension liability | 0.164905% |
| School District's proportionate share of the net pension liability | \$ 20,833,572.00 |
| State of Georgia's proportionate share of the net pension liability associated with the School District | <u>331,129.00</u> |
| Total | <u>\$ 21,164,701.00</u> |
| School District's covered-employee payroll | \$ 17,091,045.00 |
| School District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 121.90% |
| Plan fiduciary net position as a percentage of the total pension liability | 84.03% |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
Schedule includes all significant plans and funds administered by Franklin County Board of Education.

FRANKLIN COUNTY BOARD OF EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEACHERS' RETIREMENT SYSTEM OF GEORGIA
FOR THE YEAR ENDED JUNE 30

SCHEDULE "2"

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|------------------------|------------------------|------------------------|------------------------|
| Contractually required contribution | \$ 2,375,844.00 | \$ 2,098,050.00 | \$ 1,955,178.00 | \$ 1,835,659.00 |
| Contributions in relation to the contractually required contribution | \$ <u>2,375,844.00</u> | \$ <u>2,098,050.00</u> | \$ <u>1,955,178.00</u> | \$ <u>1,835,659.00</u> |
| Contribution deficiency (excess) | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| School District's covered-employee payroll | \$ 18,071,345.00 | \$ 17,091,045.00 | \$ 17,135,652.00 | \$ 17,856,605.00 |
| Contributions as a percentage of covered-employee payroll | 13.15% | 12.28% | 11.41% | 10.28% |

This schedule is intended to show information for 10 years. Due to the retention policy of the Franklin County Board of Education, the School District is only able to display 4 years of information.

Schedule includes all significant plans and funds administered by Franklin County Board of Education.

FRANKLIN COUNTY BOARD OF EDUCATION
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE "3"

Teachers' Retirement System

Changes of assumptions : In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Method and assumptions used in calculations of actuarially determined contributions : The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2015 reported in that schedule:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2012 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 30 years |
| Asset valuation method | Seven-year smoothed market |
| Inflation rate | 3.00% |
| Salary increases | 3.75 – 7.00%, including inflation |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |

FRANKLIN COUNTY BOARD OF EDUCATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015

SCHEDULE "4"

| | NONAPPROPRIATED BUDGETS | | ACTUAL | VARIANCE |
|--|-------------------------|------------------|------------------|-----------------|
| | ORIGINAL (1) | FINAL (1) | AMOUNTS | OVER/UNDER |
| REVENUES | | | | |
| Property Taxes | \$ 9,427,400.00 | \$ 10,389,900.00 | \$ 10,211,251.55 | \$ -178,648.45 |
| Sales Taxes | | | 155,378.88 | 155,378.88 |
| State Funds | 18,908,169.09 | 18,908,169.09 | 19,400,880.24 | 492,711.15 |
| Federal Funds | 2,445,162.00 | 2,449,081.00 | 3,277,056.33 | 827,975.33 |
| Charges for Services | 63,000.00 | 63,000.00 | 540,326.24 | 477,326.24 |
| Investment Earnings | 27,000.00 | 27,000.00 | 24,399.94 | -2,600.06 |
| Miscellaneous | 40,000.00 | 40,000.00 | 661,681.86 | 621,681.86 |
| Total Revenues | 30,910,731.09 | 31,877,150.09 | 34,270,975.04 | 2,393,824.95 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 21,283,280.32 | 22,067,580.40 | 21,668,422.26 | 399,158.14 |
| Support Services | | | | |
| Pupil Services | 1,091,987.81 | 1,199,651.75 | 1,243,214.68 | -43,562.93 |
| Improvement of Instructional Services | 1,675,134.90 | 2,062,047.90 | 1,406,795.24 | 655,252.66 |
| Educational Media Services | 527,074.76 | 505,638.81 | 564,579.41 | -58,940.60 |
| General Administration | 507,511.63 | 528,013.02 | 553,632.61 | -25,619.59 |
| School Administration | 2,054,575.60 | 2,028,667.29 | 2,021,375.76 | 7,291.53 |
| Business Administration | 311,691.46 | 358,225.01 | 262,726.58 | 95,498.43 |
| Maintenance and Operation of Plant | 2,186,939.61 | 2,223,692.93 | 2,408,075.18 | -184,382.25 |
| Student Transportation Services | 1,998,061.58 | 2,039,594.42 | 2,047,008.63 | -7,414.21 |
| Other Support Services | 212,306.00 | 239,900.00 | 277,573.45 | -37,673.45 |
| Enterprise Operations | | | 356,286.77 | -356,286.77 |
| Food Services Operation | 864,063.18 | 864,063.18 | 1,667,344.07 | -803,280.89 |
| Total Expenditures | 32,712,626.85 | 34,117,074.71 | 34,477,034.64 | -359,959.93 |
| Excess of Revenues over (under) Expenditures | -1,801,895.76 | -2,239,924.62 | -206,059.60 | 2,033,865.02 |
| OTHER FINANCING SOURCES | | | | |
| Other Sources | 120,000.00 | 120,000.00 | | -120,000.00 |
| Total Other Financing Sources | | | | |
| Net Change in Fund Balances | -1,681,895.76 | -2,119,924.62 | -206,059.60 | 1,913,865.02 |
| Fund Balances - Beginning | 3,248,497.59 | 3,362,619.15 | 3,808,762.41 | 446,143.26 |
| Adjustments | 34,624.09 | -28,345.69 | | 28,345.69 |
| Fund Balances - Ending | \$ 1,601,225.92 | \$ 1,214,348.84 | \$ 3,602,702.81 | \$ 2,388,353.97 |

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

(1) Original and Final Budget amounts do not include the budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are \$622,790.72 and \$612,836.52, respectively.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

SCHEDULE "5"

| FUNDING AGENCY PROGRAM/GRANT | CFDA NUMBER | PASS- THROUGH ENTITY ID NUMBER | EXPENDITURES IN PERIOD |
|--|----------------|--|---------------------------|
| Agriculture, U. S. Department of Child Nutrition Cluster Pass-Through From Georgia Department of Education Food Services | | | |
| School Breakfast Program | * 10.553 | N/A | (2) |
| National School Lunch Program | * 10.555 | N/A | \$ 1,586,444.67 (1) |
| Total U. S. Department of Agriculture | | | <u>1,586,444.67</u> |
| Education, U.S. Department of Special Education Cluster Pass-Through From Georgia Department of Education Special Education | | | |
| Grants to States | * 84.027 | N/A | 771,533.64 |
| Preschool Grants | * 84.173 | N/A | <u>34,616.20</u> |
| Total Special Education Cluster | | | <u>806,149.84</u> |
| Other Programs Pass-Through From Georgia Department of Education | | | |
| ARRA - Race-to-the-Top Incentive Grants | 84.395 | N/A | 16,909.06 |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A | 38,873.00 |
| English Language Acquisition Grants | 84.365 | N/A | 15,767.18 |
| Improving Teacher Quality State Grants | 84.367 | N/A | 155,038.66 |
| Migrant Education - State Grant Program | 84.011 | N/A | 32,338.71 |
| Rural Education | 84.358 | N/A | 52,767.25 |
| Striving Readers | 84.371 | N/A | 36,784.33 |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | <u>920,568.72</u> |
| Total Other Programs | | | <u>1,269,046.91</u> |
| Total U. S. Department of Education | | | <u>2,075,196.75</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 3,661,641.42</u> |

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

- (1) Includes the Federally assigned value of donated commodities for the Food Donation Program in the amount of \$100,186.26.
- (2) Expenditures for the funds earned on the School Breakfast Program (\$231,703.53) were not maintained separately and are included in the 2015 National School Lunch Program.

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Franklin County Board of Education and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2015

SCHEDULE "6"

| AGENCY/FUNDING | GOVERNMENTAL FUND TYPES | | TOTAL |
|--|-------------------------|-----------------------------|------------------|
| | GENERAL FUND | CAPITAL PROJECTS FUND | |
| GRANTS | | | |
| Education, Georgia Department of | | | |
| Quality Basic Education | | | |
| Direct Instructional Cost | | | |
| Kindergarten Program | \$ 943,080.00 | | \$ 943,080.00 |
| Kindergarten Program - Early Intervention Program | 388,567.00 | | 388,567.00 |
| Primary Grades (1-3) Program | 2,313,130.00 | | 2,313,130.00 |
| Primary Grades - Early Intervention (1-3) Program | 933,884.00 | | 933,884.00 |
| Upper Elementary Grades (4-5) Program | 1,097,249.00 | | 1,097,249.00 |
| Upper Elementary Grades - Early Intervention (4-5) Program | 612,941.00 | | 612,941.00 |
| Middle School (6-8) Program | 2,320,292.00 | | 2,320,292.00 |
| High School General Education (9-12) Program | 1,997,070.00 | | 1,997,070.00 |
| Vocational Laboratory (9-12) Program | 702,404.00 | | 702,404.00 |
| Students with Disabilities | 3,055,357.00 | | 3,055,357.00 |
| Gifted Student - Category VI | 593,414.00 | | 593,414.00 |
| Remedial Education Program | 219,231.00 | | 219,231.00 |
| Alternative Education Program | 163,253.00 | | 163,253.00 |
| English Speakers of Other Languages (ESOL) | 147,898.00 | | 147,898.00 |
| Media Center Program | 403,549.00 | | 403,549.00 |
| 20 Days Additional Instruction | 124,178.00 | | 124,178.00 |
| Staff and Professional Development | 71,217.00 | | 71,217.00 |
| Indirect Cost | | | |
| Central Administration | 530,019.00 | | 530,019.00 |
| School Administration | 880,306.00 | | 880,306.00 |
| Facility Maintenance and Operations | 914,203.00 | | 914,203.00 |
| Mid-term Adjustment Hold-Harmless | 10,812.00 | | 10,812.00 |
| Amended Formula Adjustment | -1,669,335.00 | | -1,669,335.00 |
| Categorical Grants | | | |
| Pupil Transportation | | | |
| Regular | 602,823.00 | | 602,823.00 |
| Nursing Services | 68,586.00 | | 68,586.00 |
| Vocational Supervisors | 13,068.00 | | 13,068.00 |
| Education Equalization Funding Grant | 1,154,671.00 | | 1,154,671.00 |
| Other State Programs | | | |
| Food Services | 46,881.00 | | 46,881.00 |
| Math and Science Supplements | 24,418.66 | | 24,418.66 |
| Preschool Handicapped Program | 108,020.71 | | 108,020.71 |
| Pupil Transportation - State Bonds | 154,440.00 | | 154,440.00 |
| Teacher of the Year | 507.25 | | 507.25 |
| Teachers' Retirement | 36,853.34 | | 36,853.34 |
| Technology Infrastructure | 12,600.00 | | 12,600.00 |
| Vocational Education | 153,645.65 | | 153,645.65 |
| Vocational Construction Related Equipment - State Bonds | 159,515.60 | | 159,515.60 |
| Georgia State Financing and Investment | | | |
| Commission | | | |
| Reimbursement on Construction Projects | | \$ 692,135.80 | 692,135.80 |
| Office of the State Treasurer | | | |
| Public School Employees Retirement | 69,949.00 | | 69,949.00 |
| CONTRACT | | | |
| Human Resources, Georgia Department of | | | |
| Family Connection | 42,182.03 | | 42,182.03 |
| | \$ 19,400,880.24 | \$ 692,135.80 | \$ 20,093,016.04 |

See notes to the basic financial statements.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS
YEAR ENDED JUNE 30, 2015

SCHEDULE "7"

| PROJECT | ORIGINAL ESTIMATED COST (1) | CURRENT ESTIMATED COSTS (2) | AMOUNT EXPENDED IN CURRENT YEAR (3) (4) (5) | AMOUNT EXPENDED IN PRIOR YEARS (3) (4) (5) | TOTAL COMPLETION COST | EXCESS PROCEEDS NOT EXPENDED | ESTIMATED COMPLETION DATE |
|---|-----------------------------------|-----------------------------------|--|---|-----------------------------|------------------------------------|---------------------------------|
| i) Acquiring, constructing, and equipping replacement school buildings at Franklin County High School, | \$ 16,300,000.00 | \$ 15,500,000.00 | \$ 1,051,130.01 | \$ 14,193,951.83 | | | June 30, 2018 |
| ii) adding to, renovating, repairing, improving, acquiring and equipping school buildings and School System facilities; | 500,000.00 | 1,400,000.00 | 975,405.95 | 176,298.90 | | | June 30, 2018 |
| iii) acquiring miscellaneous new equipment, fixtures and furnishings for the School System, including computer technology equipment, computer software, school buses and other vehicles, transportation and maintenance equipment, and security and safety equipment; | 1,300,000.00 | 2,300,000.00 | 530,327.25 | 905,306.57 | | | June 30, 2018 |
| iv) acquiring land or improving land for new or existing schools; | 100,000.00 | 100,000.00 | | | | | June 30, 2018 |
| v) acquiring textbooks, e-books, and e-book readers for the School System; | 400,000.00 | 400,000.00 | | | | | June 30, 2018 |
| vi) paying a portion of the payments, including principal and interest, due on the School District's Series 2006 and 2007 Bonds with a maximum payment amount of \$1,700,000.00, with the maximum cost of the projects described in items (i)-(vi) payable from said tax being \$20,000,000.00, | <u>1,700,000.00</u> | <u>300,000.00</u> | | <u>227,097.58</u> | | | June 30, 2018 |
| | <u>\$ 20,300,000.00</u> | <u>\$ 20,000,000.00</u> | <u>\$ 2,556,863.21</u> | <u>\$ 15,502,654.88</u> | | | |

- (1) The School District's original cost estimate as specified in the resolution calling for the imposition of the Local Option Sales Tax.
- (2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.
- (3) The voters of Franklin County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects may include sales tax proceeds, state, local property taxes and/or other funds over the life of the projects.
- (4) In addition to the expenditures shown above, the School District has incurred interest to provide advance funding for the above projects as follows:

| | |
|--------------|------------------------|
| Prior Years | \$ 832,186.81 |
| Current Year | <u>441,774.99</u> |
| Total | <u>\$ 1,273,961.80</u> |

- (5) In addition to the expenditures shown above, the School District has incurred bond issuance cost and related paying agent fees for the above projects as follows:

| | |
|--------------|----------------------|
| Prior Years | \$ 162,366.14 |
| Current Year | <u>0.00</u> |
| Total | <u>\$ 162,366.14</u> |

See notes to the basic financial statements.

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FRANKLIN COUNTY BOARD OF EDUCATION
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2015

SCHEDULE "8"

| DESCRIPTION | ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2) | ELIGIBLE QBE PROGRAM COSTS | | |
|--|--|----------------------------|---------------|------------------|
| | | SALARIES | OPERATIONS | TOTAL |
| Direct Instructional Programs | | | | |
| Kindergarten Program | \$ 1,129,800.00 | \$ 1,665,966.45 | \$ 14,177.61 | \$ 1,680,144.06 |
| Kindergarten Program-Early Intervention Program | 413,906.00 | | 1,632.17 | 1,632.17 |
| Primary Grades (1-3) Program | 2,719,950.00 | 3,466,734.69 | 44,730.59 | 3,511,465.28 |
| Primary Grades-Early Intervention (1-3) Program | 1,020,250.00 | 17,641.42 | 5,124.36 | 22,765.78 |
| Upper Elementary Grades (4-5) Program | 1,293,386.00 | 2,162,153.26 | 21,816.77 | 2,183,970.03 |
| Upper Elementary Grades-Early Intervention (4-5) Program | 680,855.00 | 70,565.79 | 2,198.38 | 72,764.17 |
| Middle School (6-8) Program | 2,716,579.00 | 3,205,467.48 | 39,196.70 | 3,244,664.18 |
| High School General Education (9-12) Program | 2,291,172.00 | 3,080,216.87 | 56,381.14 | 3,136,598.01 |
| Vocational Laboratory (9-12) Program | 820,701.00 | 791,746.58 | 65,475.75 | 857,222.33 |
| Students with Disabilities | 3,498,858.00 | | | |
| Category I | | 76,553.52 | 927.88 | 77,481.40 |
| Category II | | 434,361.02 | 1,792.72 | 436,153.74 |
| Category III | | 2,308,444.90 | 195,212.41 | 2,503,657.31 |
| Category IV | | 165,908.40 | 7,534.85 | 173,443.25 |
| Category V | | 16,918.30 | 19,777.70 | 36,696.00 |
| Gifted Student - Category VI | 666,521.00 | 348,465.08 | 6,882.03 | 355,347.11 |
| Remedial Education Program | 263,643.00 | | 159.65 | 159.65 |
| Alternative Education Program | 190,056.00 | 327,658.76 | 5,685.40 | 333,344.16 |
| English Speakers of Other Languages (ESOL) | 169,176.00 | 196,609.35 | | 196,609.35 |
| TOTAL DIRECT INSTRUCTIONAL PROGRAMS | 17,874,853.00 | 18,335,411.87 | 488,706.11 | 18,824,117.98 |
| Media Center Program | 468,051.00 | 455,817.80 | 38,428.50 | 494,246.30 |
| Staff and Professional Development | 80,522.00 | 37,257.93 | 49,847.89 | 87,105.82 |
| TOTAL QBE FORMULA FUNDS | \$ 18,423,426.00 | \$ 18,828,487.60 | \$ 576,982.50 | \$ 19,405,470.10 |

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

See notes to the basic financial statements.

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SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

October 26, 2016

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Franklin County Board of Education

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Ladies and Gentlemen:

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County Board of Education as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Franklin County Board of Education's basic financial statements and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Franklin County Board of Education'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 Franklin County Board of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Franklin County Board of Education's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a

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material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items FS 2015-002 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as items FS 2015-001 to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we have reported to management of Franklin County Board of Education in a separate letter dated October 26, 2016.

Franklin County Board of Education's Response to Findings

Franklin County Board of Education's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Franklin County Board of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin".

Greg S. Griffin
State Auditor

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

October 26, 2016

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Franklin County Board of Education

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

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Franklin County Board of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Franklin County Board of Education's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Franklin County Board of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Franklin County Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Franklin County Board of Education's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Franklin County Board of Education 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 Franklin County Board of Education 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 Franklin County Board of Education'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 Franklin County Board of Education'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items FA 2015-001 and FA 2015-002, that we consider to be significant deficiencies.

Franklin County Board of Education's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Franklin County Board of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Greg S. Griffin
State Auditor

GSG:er
2015SA-30

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SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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FRANKLIN COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FINDING CONTROL NUMBER AND STATUS

| | |
|---------------|--|
| FS-6591-13-01 | Partially Resolved - See Corrective Action/Responses |
| FS 2014-001 | Unresolved - See Corrective Action/Responses |

CORRECTIVE ACTION/RESPONSES

Cash and Cash Equivalents
Expenditures/Liabilities/Disbursements
Revenues/Receivables/Receipts
General Ledger
Capital Assets
Inadequate Internal Controls
Finding Control Number: FS-6591-13-01

The accounting department will begin completing a formal bank reconciliation on all accounts regardless if the balance is immaterial or the activity is extremely low. In the past the activity in the Bus Driver's Assoc. account and the Georgia Fund account were reviewed by providing the bank statement. Also, to provide better separation of duties for capital assets, the Assistant Superintendent will review the process of identifying, valuating and posting of capital assets. These changes in the accounting procedures will be documented in the financial handbook. All changes will be implemented by January 2016.

Cash and Cash Equivalents
Investments
General Ledger
Capital Assets
Inadequate Internal Control Procedures
Finding Control Number: FS 2014-001

The accounting department will begin completing a formal bank reconciliation on all accounts regardless if the balance is immaterial or the activity is extremely low. In the past the activity in the Bus Driver's Assoc. account and the Georgia Fund account were reviewed by providing the bank statement. Also, to provide better separation of duties for capital assets, the Assistant Superintendent will review the process of identifying, valuating and posting of capital assets. These changes in the accounting procedures will be documented in the financial handbook. All changes will be implemented by January 2016.

FRANKLIN COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| <u>FINDING CONTROL NUMBER</u> | <u>AUDITEE'S RESPONSE/STATUS</u> | <u>SEE AUDITOR'S COMMENT</u> |
|---------------------------------------|--|--------------------------------------|
| FA 2014-001 | Unresolved - See Corrective Action/Responses | (1) |

CORRECTIVE ACTION/RESPONSES

Activities Allowed/Unallowed
Allowable Costs/Cost Principles
Inadequate Internal Control Procedures
U.S. Department of Agriculture
Through Georgia Department of Education
Child Nutrition Cluster (CFDA 10.553, 10.555)
Finding Control Number: FA 2014-001

The Program Director will document and implement procedures to ensure that all expenditures are allowable under OMB A-87. Also, the Program bookkeeper has been instructed to dedicate blocks of uninterrupted time to process invoices so as to minimize distractions. The Program Director will closely monitor vouchers to ensure that they are accurate. These changes will be implemented by January 2016.

Auditor's Comment

- (1) This finding is pending review by the Georgia Department of Education to determine if a refund is appropriate.

SECTION IV

FINDINGS AND QUESTIONED COSTS

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FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:

| | |
|---|------------|
| Governmental Activities; General Fund; Capital Projects Fund; Debt Service Fund; Aggregate Remaining Fund Information | Unmodified |
|---|------------|

Internal control over financial reporting:

| | |
|--------------------------------------|-----|
| ▪ Material weakness identified? | Yes |
| ▪ Significant deficiency identified? | Yes |

| | |
|---|----|
| Noncompliance material to financial statements noted: | No |
|---|----|

Federal Awards

Internal Control over major programs:

| | |
|--------------------------------------|-----|
| ▪ Material weakness identified? | No |
| ▪ Significant deficiency identified? | Yes |

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

| | |
|--------------------|------------|
| All major programs | Unmodified |
|--------------------|------------|

| | |
|--|-----|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | Yes |
|--|-----|

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 10.553, 10.555 | Child Nutrition Cluster |
| 84.027, 84.173 | Special Education Cluster |

| | |
|--|--------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000.00 |
|--|--------------|

| | |
|--|----|
| Auditee qualified as low-risk auditee? | No |
|--|----|

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

| | |
|-------------------------------|---|
| FS 2015-001 | <u>Inadequate Internal Control Procedures</u> |
| Control Category: | Cash and Cash Equivalents |
| | Investments |
| | Revenues/Receivables/Receipts |
| | Employee Compensation |
| | General Ledger |
| | Capital Assets |
| | Accounting System |
| Internal Control Impact: | Significant Deficiency |
| Compliance Impact: | None |
| Repeat of Prior Year Finding: | FS-6591-13-01 and FS 2014-01 |

Description:

The accounting procedures of the School District were insufficient to provide for adequate internal controls at the Central Office and within the accounting system.

Criteria:

The School District's management is responsible for designing and maintaining internal controls that provide reasonable assurance that transactions are properly documented, approved, processed and recorded in accordance with the School District's established policies and procedures.

Condition:

The following deficiencies were noted within the School District's internal controls and accounting procedures:

Cash and Cash Equivalents

- Bank reconciliations for two bank accounts were not performed in a timely manner.
- One bank reconciliation lacked evidence of review and proper approval.
- Controls were not in place to ensure that the internally pooled cash accounts netted to zero.

Investments

The School District did not establish adequate separation of duties for the key accounting functions of initiating and recording of Investments.

Revenues/Receivables/Receipts

The School District did not establish adequate separation of duties for the key accounting functions of initiating, authorizing and recording of revenues.

Employee Compensation

The School District did not establish adequate separation of duties for the key accounting functions of recording and processing of salaries and benefits.

General Ledger:

A review of twenty seven journal entries revealed twelve journal entries lacked evidence of review and proper approval.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Capital Assets

- The process of identification, valuation and posting of capitalizable assets were performed by one individual, with no review by someone independent of the Capital Asset process.
- The School District did not calculate or record current year depreciation for capital assets deleted during the year under review.
- Equipment and Land Improvements totaling \$56,439.00 were not capitalized according to the School District's capital asset policy.
- Software and equipment items totaling \$19,727.69 were capitalized but did not meet the capitalization threshold as identified in the School District's capital asset policy.
- A land improvement addition has a description of "Landscaping", which is not a capitalizable asset per the School District's capital asset policy.
- Thirteen School Food Service equipment additions were recorded as having useful lives of five years although the capital asset policy indicates that "Kitchen Equipment" should have a useful life of twenty-five years.

Accounting System

- The financial director was also the system administrator. These key roles should be separated.
- There was no evidence of an authorization process for granting access to the accounting system for new users.

Cause:

In discussing these deficiencies with the School District, they indicated that the cause was a result of not having formal accounting procedures and a formal monitoring process in place.

Effect or Potential Effect:

Errors and/or irregularities may not be detected in a timely manner.

Recommendation:

The School District should review accounting procedures in place and design and implement procedures relative to the above control categories to strengthen the internal controls over the accounting functions and ensure that proper separation of duties exist for key accounting functions. In addition, management should establish a monitoring process to provide reasonable assurance that transactions are processed according to established procedures.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. To better provide internal controls at the Central Office and within the accounting system, the following changes in accounting procedures have been: All bank reconciliations including two small immaterial accounts will be reviewed monthly instead of on a quarterly basis. Changes to the capital assets list will be reviewed and signed off by the assistant superintendent for improved separation of duties. The finance director will periodically review the journal entries for completeness of the superintendent's review. All revenues coming into the office requires three persons to review before recording. In addition, the superintendent will begin reviewing the receipt notebook for further oversight because some receipts are sent electronically. These changes were implemented by September 2016.

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FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

| | |
|--------------------------|---|
| FS 2015-002 | <u>Inadequate Controls over the Financial Reporting</u> |
| Control Category: | Financial Reporting |
| Internal Control Impact: | Material Weakness |
| Compliance Impact: | N/A |

Description:

The School District did not have adequate internal controls in place to ensure that the financial statements presented for audit were materially correct.

Criteria:

Management is responsible for having adequate controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The School District's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* (Statement), requires governments to present government-wide and fund financial statements as well as a summary reconciliation of the (a) total governmental funds balances to the net position of governmental activities in the Statement of Net Position, and (b) total change in governmental fund balances to the change in the net position of governmental activities in the Statement of Activities. In addition, the Statement requires information about the government's major and nonmajor funds in the aggregate, to be provided in the fund financial statements.

Chapter 22A, *Annual Financial Reporting* of the Financial Management for Georgia Local Units of Administration provides that School Districts must prepare their financial statements in accordance with generally accepted accounting principles.

Condition:

The financial statements as presented for audit, contained material and significant errors, misclassifications and omissions:

- On the Government-wide statements, a \$2,325,345.22 reclassification entry was proposed and accepted by the client to properly classify Cash and Investments.
- Reclassification entries of \$1,689,663.47 were proposed and accepted by the client to properly classify Net Position.
- On the Governmental Funds statements, Debt Service Fund Cash was overstated and Capital Projects Fund Cash was understated by \$228,255.29. Material audit adjustments were proposed and accepted by the client to properly record Cash and Transfers.
- Other immaterial audit adjustments and reclassifications were proposed and accepted by the client to properly present the School District's financial statements.

Cause:

In discussing this issue with the School District, it appears that the errors occurred primarily due to oversights in the financial statement review process.

Effect or Potential Effect:

Material and significant misstatements and misclassifications were included in the financial statements presented for audit. The lack of controls and monitoring could impact the reporting of the School District's financial and results of operation.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Recommendation:

The School District should strengthen procedures over the financial statement reporting process to ensure that the financial statements presented for audit, including note disclosures are complete and accurate. These controls should include a monitoring process to evaluate the accuracy of the financial statements. These procedures should be performed by properly trained personnel possessing a thorough understanding of the applicable GAAP, GASB pronouncements and the School District's operations.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. To review and assist the financial director with the reporting process, the School System will contract with a former Department of Education auditor to further ensure that the financial statements presented for audit are materially correct. This change was implemented by September 2016.

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FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--------------------------|--|
| FA 2015-001 | <u>Inadequate Controls over Equipment</u> |
| Compliance Requirement: | Equipment and Real Property Management |
| Internal Control Impact: | Significant Deficiency |
| Compliance Impact: | Nonmaterial Noncompliance |
| Federal Awarding Agency: | U.S. Department of Agriculture |
| Pass-Through Entity: | Georgia Department of Education |
| CFDA Number and Title: | Child Nutrition Cluster (CFDA 10.553 and 10.555) |

Description:

The policies and procedures of the School District were insufficient to provide adequate internal controls over equipment and real property management as it relates to the Child Nutrition Cluster.

Criteria:

7 CFR § 3016.32 (d)(1) states, "Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

Chapter 41, *State and Federal Fiscal Rules and Procedures* of the Financial Management for Georgia Local Units of Administration states, "Equipment records must be maintained that include a description of the equipment, a serial number or other identification number, the vendor, title holder, acquisition date and cost, source of funding, percentage of federal participation in the cost of the equipment, the location use and condition, and any ultimate disposition data including the date of disposal and sale price of the equipment. A physical inventory of the equipment must be taken and the results reconciled with equipment records annually."

Condition:

The School District did not maintain an adequate equipment listing for the Child Nutrition Cluster including information regarding the equipment's cost, acquisition date, location, serial number, percentage of Federal participation in regards to cost, who holds title, use and condition of the property. Our test revealed that three equipment items in the high school kitchen were not recorded on the equipment listing submitted for audit. The School District also did not have inventory count documentation on file to support that an annual physical inventory of Child Nutrition Cluster equipment was performed.

Cause:

In discussing the issue with Child Nutrition Cluster management, they stated that management had not effectively implemented Federal guidelines as they pertain to equipment and real property management.

Effect or Potential Effect:

Failure to maintain a proper, accurate equipment listing and supporting documentation of a physical inventory resulted in noncompliance with the Federal Grant requirements.

FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

The School District should strengthen controls over Child Nutrition Cluster equipment to ensure that the equipment records are complete and accurate. Management should conduct annual physical equipment inventories and reconcile the results to the equipment records. Documentation of the physical inventory should be maintained on file for audit. The equipment records should include description, identifying number, source, title holder, acquisition date, cost, funding source, percentage of federal participation, location, condition and disposition data of each piece of equipment.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. Since the audit, Kristin Schupp, Director of Food Services, and her staff have completed an extensive inventory of food service equipment and have tagged all equipment. This new inventory list describes the equipment in detail in compliance with all State and Federal rules.

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FRANKLIN COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

| | |
|--------------------------|--|
| FA 2015-002 | <u>Inadequate Internal Control Procedures</u> |
| Compliance Requirement: | Activities Allowed or Unallowed |
| Internal Control Impact: | Significant Deficiency |
| Compliance Impact: | Nonmaterial Noncompliance |
| Federal Awarding Agency: | U.S. Department of Agriculture |
| Pass-Through Entity: | Georgia Department of Education |
| CFDA Number and Title: | Child Nutrition Cluster (CFDA 10.553, 10.555 and 10.559) |

Description:

The School District did not have adequate controls in place to ensure that journal entries made for the Child Nutrition Cluster were accurate and properly documented.

Criteria:

Provisions of OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, require that "to be allowable under Federal awards, costs must be authorized or not prohibited under state or local laws or regulations" and "supported by underlying documentation".

Condition:

A review Child Nutrition Cluster journal entries revealed two journal entries made to record donated commodity activity were inaccurate. One of these journal entries was not supported by adequate documentation. The School District's monitoring/review process for journal entries did not identify these deficiencies.

Cause:

In a discussion with Child Nutrition Cluster personnel, it was determined that amounts were pulled from the wrong column of the donated commodity reports when these journal entries were prepared.

Effect or Potential Effect:

Inadequate documentation for journal entries contributed to inaccuracies in the amounts posted to the accounting records which caused account balances to be misstated. Failure to ensure that program expenditures were accurate and properly documented resulted in noncompliance with requirements of the Federal grant.

Recommendation:

The School District should enhance internal controls and implement procedures to ensure that journal entries for the Child Nutrition Cluster reviewed for accuracy and adequately documented to ensure that expenditures are allowable as required by OMB Circular A-87.

Views of Responsible Officials and Corrective Action Plans:

We concur with this finding. As part of the monthly inventory procedure, the food managers attach the picking sheet with the inventory sheet. This ensures that the journal entries are made accurate and are properly documented for donated food. The food director reviews all journal entries made by the food service bookkeeper. All changes were implemented by September 2016.

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