

**FRANKLIN SPECIAL SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2012**

*Randall*  
**Matlock & Associates, P.C.**  

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**CERTIFIED PUBLIC ACCOUNTING & CONSULTING**

# FRANKLIN SPECIAL SCHOOL DISTRICT

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## **FINANCIAL SECTION**

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**Independent Auditor's Report**

Members of the Board of Education and  
The Director of Schools  
Franklin Special School District  
Franklin, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Special School District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

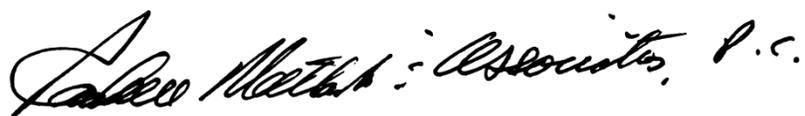
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position and the budgetary comparison of General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the District'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is

required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The combining and individual nonmajor fund statements and schedules, and the financial schedules section as listed in the table of contents on pages 52-61, are presented for additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 58 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.



*Randall Matlock* : Associates, P.C.

October 19, 2012

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

Our discussion and analysis of the Franklin Special School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012.

### *FINANCIAL HIGHLIGHTS*

- The assets of the District exceeded its liabilities by approximately \$13.5 million for the fiscal year while net assets increased \$974,636.
- Outlays for new capital assets totaled approximately \$1.8 million and consisted of technology equipment, various repairs and improvements and two new school buses.

### *OVERVIEW OF THE FINANCIAL STATEMENTS*

This comprehensive annual financial report consists of a series of financial statements, notes to those statements and required supplementary information. The statements are organized so the reader can understand the District as a whole and then proceed to a detailed look at specific financial activities.

#### **Reporting the District as a Whole**

##### *The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets and begin on page 16. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. Readers will need to consider other nonfinancial factors such as the property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the District.

#### **Reporting the District's Most Significant Funds**

##### *Fund Financial Statements*

The District's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance, begin on page 18 and provide detailed information about the District's most significant or "major" funds – not the District as a whole. Some funds

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

The District's funds are categorized as "governmental funds", which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the District as a whole.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides through its various funds. Governmental fund information helps the reader determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (as reported in the Statement of Net Assets and the Statement of Activities) and governmental funds (as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) is reconciled in the basic financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### *Net Assets*

As noted earlier, net assets may serve over time as a useful indicator of a school district's financial position. In the case of the District, assets exceeded liabilities at the close of the fiscal year, resulting in net assets of approximately \$13.5 million.

A schedule of the District's net assets at June 30, 2011 (for comparison) and 2012 follows:

	<i>Governmental Activities</i>	
	<i>2012</i>	<i>2011</i>
Current and other assets	\$ 40,074,836	\$ 39,853,051
Capital assets, net	61,211,353	62,416,588
<i>Total assets</i>	<u>101,286,189</u>	<u>102,269,639</u>
Long-term liabilities	50,208,278	52,516,247
Other liabilities	37,585,076	37,235,193
<i>Total liabilities</i>	<u>87,793,354</u>	<u>89,751,440</u>
<i>Net assets:</i>		
Invested in capital assets, net of related debt	22,111,927	19,984,527
Restricted	3,359,224	3,734,585
Unrestricted	(11,978,316)	(11,200,913)
<i>Total net assets</i>	<u>\$ 13,492,835</u>	<u>\$ 12,518,199</u>

## FRANKLIN SPECIAL SCHOOL DISTRICT

### Management's Discussion and Analysis

Over 100% of the District's net assets relates to the investment in capital assets net of related debt. This has resulted primarily due to the District's use of capital appreciation bonds and the accreted interest on these bonds. Long-term debt includes almost \$11.3 million in accreted interest for capital appreciation bonds which are not included in debt for the calculation of investment in capital assets net of related debt. The District uses capital assets to provide services to its roughly 3,828 public school students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Additionally, a portion of the District's net assets (approximately \$3.4 million or 25%) represents resources subject to external restrictions on how they may be used. And as can be seen from the schedule on the previous page, the unrestricted net assets result in a deficit.

#### *Changes in Net Assets*

The District's activities are categorized as "governmental" activities. Net assets of the District's governmental activities increased by \$974,636. The increase in net assets resulted primarily from the general purpose revenue exceeding expenditures.

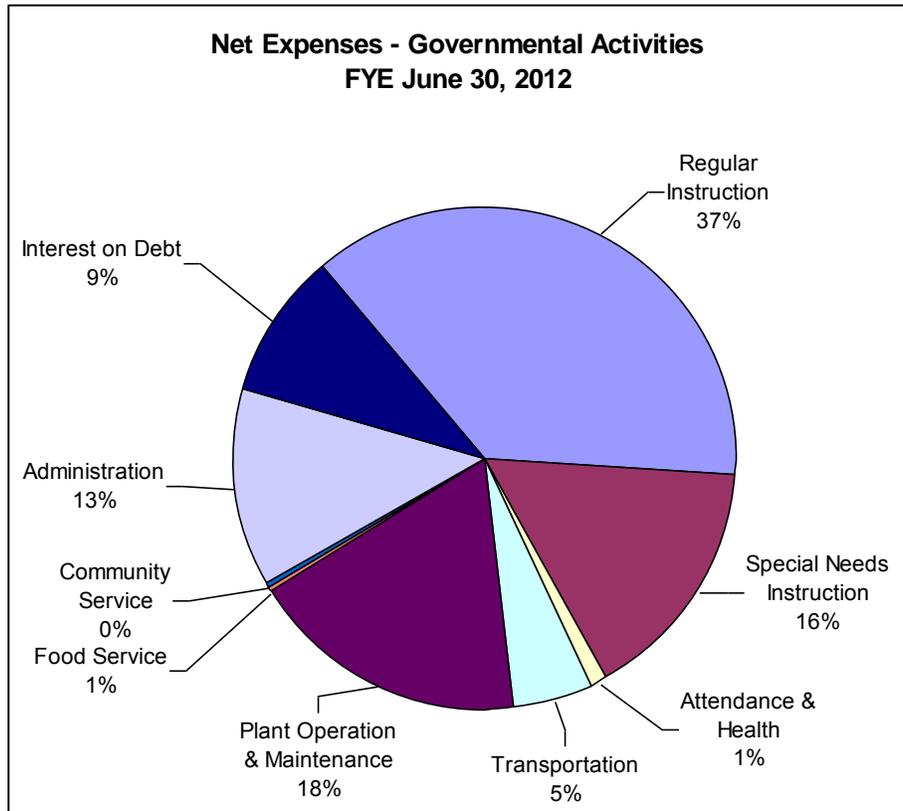
The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table on the following page reflects the "total" cost of program services and the "net" cost of those services after taking into account the program revenues for the specific governmental activities.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

### Change in Net Assets - Governmental Activities

	<u>Total Cost</u> <u>of Services</u>	<u>Less: Program</u> <u>Revenues</u>	<u>Net Cost</u> <u>of Services</u> <u>2012</u>	<u>Net Cost</u> <u>of Services</u> <u>2011</u>
<b>Program Expenses:</b>				
Instruction:				
Regular	\$ 28,211,828	\$ (16,260,613)	\$ 11,951,215	\$ 11,256,196
Special needs	6,197,358	(1,098,039)	5,099,319	4,629,339
Support Services:				
Attendance and health	367,411	-	367,411	355,953
Transportation	1,655,882	-	1,655,882	1,584,473
Plant operations and maintenance	5,782,195	-	5,782,195	5,968,125
Food service	1,975,712	(1,845,553)	130,159	50,960
Community service	1,128,707	(1,038,669)	90,038	145,130
Administration	4,060,633	-	4,060,633	4,476,339
Interest on debt	3,049,701	-	3,049,701	2,845,495
<b>Total</b>	<u>\$ 52,429,427</u>	<u>\$ (20,242,874)</u>	32,186,553	31,312,010
<b>Less: General Revenues</b>			33,161,189	32,886,561
<b>Change in Net Assets</b>			<u>\$ 974,636</u>	<u>\$ 1,574,551</u>

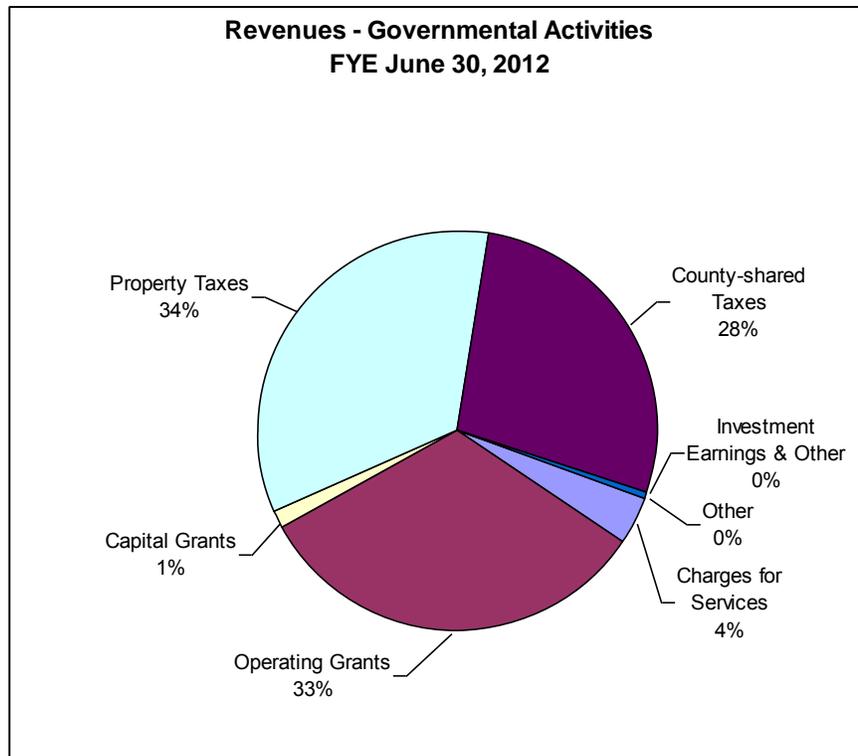


# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

The graph on the preceding page indicates that the net cost of regular and special needs instruction and plant operations and maintenance represent the largest components of the District's governmental activities, 53% and 18%, respectively. The District relies on general revenues, including tax revenue and unrestricted State BEP funds, to support the net cost of its governmental activities. As the chart below indicates, \$33.2 million of general revenues were realized to support \$32.2 million of governmental activities.

	<u>Governmental 2012 Activities</u>	<u>%</u>	<u>Governmental 2011 Activities</u>	<u>%</u>
<b>Program Revenues:</b>				
Charges for services	\$ 2,034,881	3.8%	\$ 1,930,479	3.7%
Operating grants	17,403,118	32.6%	17,165,091	32.6%
Capital grants	804,875	1.5%	613,061	1.2%
	<u>20,242,874</u>	<u>37.9%</u>	<u>19,708,631</u>	<u>37.5%</u>
<b>General Revenues:</b>				
Property taxes	18,140,797	34.0%	18,456,597	35.1%
County-shared taxes	14,711,715	27.5%	14,102,158	26.8%
Investment earnings	58,630	0.1%	87,400	0.2%
Other	250,047	0.5%	240,406	0.5%
	<u>33,161,189</u>	<u>62.1%</u>	<u>32,886,561</u>	<u>62.5%</u>
<b>Total Revenues</b>	<u>\$ 53,404,063</u>	<u>100.0%</u>	<u>\$ 52,595,192</u>	<u>100.0%</u>



**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Management’s Discussion and Analysis**

Property taxes and county-shared taxes, including sales tax and State BEP funds, accounted for most of the District’s general revenues, contributing about 34 cents and 28 cents, respectively, of every dollar raised. Another 33% came from State and Federal funds for specific programs, and the remainder from fees charged for services and miscellaneous sources.

***FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS***

The District’s governmental funds (as presented on the Balance Sheet on page 4) reported a combined fund balance of \$6.2 million, a decrease of almost \$100,000 from the prior year. The schedule below indicates the fund balance and the total change in fund balance by fund as of June 30, 2012.

	<u>Balance,</u> <u>June 30, 2012</u>	<u>Balance,</u> <u>June 30, 2011</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 3,552,036	\$ 3,066,940	\$ 485,096
Debt Service	2,123,192	2,722,347	(599,155)
Nonmajor Funds:			
Food Service	(174,776)	(198,697)	23,921
Federal Projects	-	-	-
Community Service	(251,879)	(294,097)	42,218
Capital Outlay	<u>919,585</u>	<u>967,802</u>	<u>(48,217)</u>
Total	<u>\$ 6,168,158</u>	<u>\$ 6,264,295</u>	<u>\$ (96,137)</u>

*General Fund*

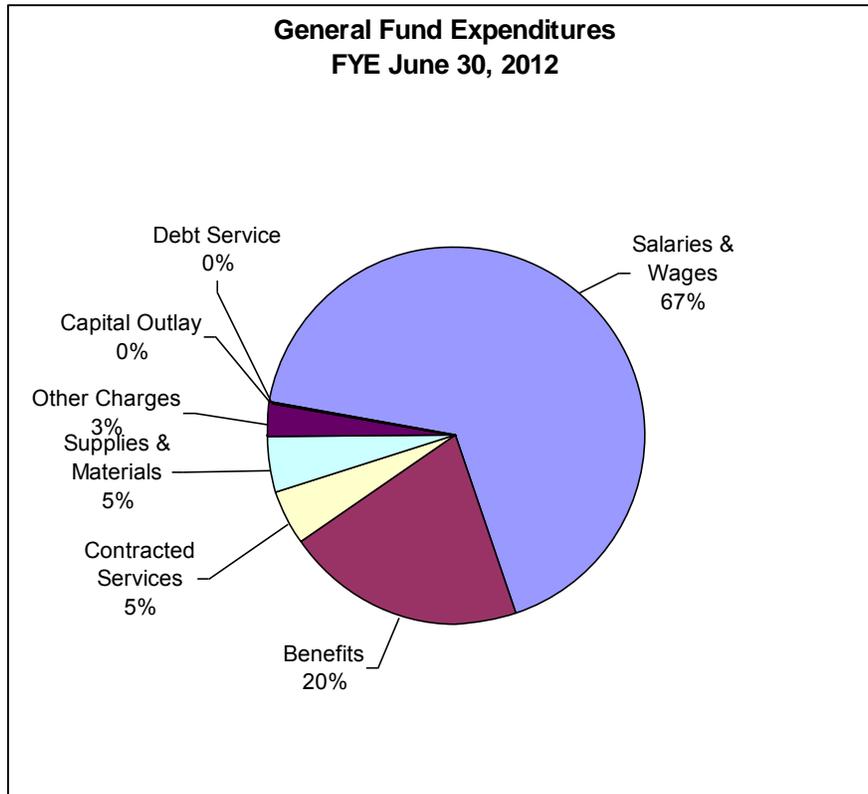
The General Fund is the chief operating fund of the District. At the end of the fiscal year, the total fund balance of the General Fund was \$3,552,036. The unreserved fund balance of \$3.5 million is available for spending at the District’s discretion. The remaining fund balance is reserved for special programs. As a measure of liquidity, the unreserved fund balance represents 8.6% of total General Fund expenditures.

Revenue exceeded expenditures for the fiscal year, which resulted in an increase to the fund balance of \$485,096.

The District is a service entity and as such is labor intensive. As the graph on the next page illustrates, 87% of the General Fund expenditures are for employee salaries and benefits.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Management's Discussion and Analysis**



**General Fund Expenditures - By Object**

	<b>2012</b>	<b>2011</b>
Salaries & Wages	\$ 27,072,237	\$ 26,191,901
Benefits	8,274,043	8,043,708
Contracted Services	1,856,869	1,685,775
Supplies & Materials	1,954,989	2,064,384
Other Charges	1,221,461	1,111,263
Capital Outlay	16,208	82,541
Debt Service	1,194	6,004
<b>Total</b>	<b>\$ 40,397,001</b>	<b>\$ 39,185,576</b>

*Other Funds*

The Debt Service Fund is used to account for funds reserved for the retirement of the District's debt. The fund balance of the District's Debt Service Fund decreased \$599,155 due to a transfer of funds to Capital Projects for a major building improvement at one school. The expenses of the Debt Service Fund include principal and interest payments for bond indebtedness as well as fiscal agent fees. Debt payments for tax anticipation notes are made through the general fund when needed.

## **FRANKLIN SPECIAL SCHOOL DISTRICT**

### **Management's Discussion and Analysis**

The District operates a food service program in each of its seven schools. The Food Service Fund's fund balance increased \$23,921 due primarily to the summer feeding program. Revenues consist of meal and a-la-carte sales as well as reimbursements from the U.S. Department of Agriculture School Nutrition Program. Expenditures consist of food and supply costs in addition to employee labor and benefits.

The District provides morning and afternoon care for children through the Morning and Afternoon Care (MAC) program. The Community Service Fund's fund balance increased \$42,218 due primarily to greater MAC program participation.

The fund balance of the Capital Outlay Fund decreased \$48,217 due to the use of funds for the roof replacement at one school. Revenue of this fund comes from the District's share of county impact fees. Expenditures consisted of two new buses, various repairs and improvements and technology equipment for instructional purposes throughout the District.

### ***GENERAL FUND BUDGET INFORMATION***

The District's budget is prepared in accordance with Tennessee law and is based on the modified accrual basis of accounting utilizing encumbrances. The most significant budgeted fund is the General Fund.

The District's original budget for General Fund expenditures totaled \$41.4 million and the estimated revenues and transfers totaled \$40.8 million. Final budgeted expenditures in the General Fund were \$42.1 million. Amendments related primarily to grants.

During the year, however, the District realized a slight revenue shortfall primarily due to county revenue and made an effort to spend conservatively. The original budget was amended accordingly. Consequently, expenditures were less than budgetary estimates by \$1,663,654 at year-end, and actual revenues were less than budgetary estimates by \$294,389. Subsequently, revenues and transfers for the fiscal year exceeded total expenditures, increasing the fund balance by \$485,096.

### ***CAPITAL ASSET AND DEBT ADMINISTRATION***

#### **Capital Assets**

The District has \$61.2 million invested in capital assets (net of accumulated depreciation of \$34.4 million). This investment is comprised of 196 acres of land, seven school buildings and two administrative office buildings, land improvements (such as parking lots, athletic fields and lighting and drainage systems and retention ponds), furniture and equipment, more than 30 school buses and maintenance vehicles and equipment.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Management’s Discussion and Analysis**

Acquisitions consisting of technology equipment, two buses, various repairs and improvements totaled \$1,798,223. Detailed information regarding capital asset activity is included in the notes to financial statements (see Note 3).

The District’s capital assets at June 30, 2012 as summarized by location follow:

<u>Location</u>	<u>Owned</u>		<u>Accumulated</u>		<u>2012</u>	<u>2011</u>
	<u>Acreage</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Cost, Net</u>	<u>Cost, Net</u>	<u>Cost, Net</u>
Franklin Elementary	16.7	\$ 11,331,281	\$ 5,135,277	\$ 6,196,004	\$ 6,461,131	
Johnson Elementary	13.7	7,376,984	2,261,430	5,115,554	5,265,525	
Liberty Elementary	37.0	8,641,261	3,865,016	4,776,245	3,855,753	
Moore Elementary	20.0	11,149,360	3,805,705	7,343,655	7,666,471	
Freedom Intermediate	25.0	18,830,077	4,613,915	14,216,162	15,036,732	
Freedom Middle	37.4	12,468,179	5,587,766	6,880,413	7,124,568	
Poplar Grove	37.3	21,199,836	6,103,468	15,096,368	15,420,265	
Central Office	2.6	600,754	349,224	251,530	271,001	
Central Office Annex	6.6	1,459,265	848,441	610,824	509,270	
Transportation	-	2,296,203	1,606,739	689,464	668,963	
Maintenance/Landscaping	-	259,489	224,355	35,134	136,909	
<b>Total</b>	<b>196.3</b>	<b>\$ 95,612,689</b>	<b>\$ 34,401,336</b>	<b>61,211,353</b>	<b>62,416,588</b>	
Less: Outstanding Debt				(39,099,426)	(42,432,061)	
Plus: Bond Proceeds (net of contracts payable)				-	-	
<b>Net Investment in Capital Assets</b>				<b>\$ 22,111,927</b>	<b>\$ 19,984,527</b>	

**Long-Term Debt**

At June 30, 2012, the District had general obligation bonds outstanding of \$49,667,169, a capital lease of \$137,100, a liability for compensated absences of \$395,836 and a net OPEB obligation of \$3,940,748. This is as compared to the June 30, 2011, balances of \$52,900,286 for general obligation bonds, a liability for compensated absences of \$429,540 and a net OPEB obligation of \$3,811,180. The bonds are backed by the full faith and credit of the District. Total long-term debt of the District decreased during the fiscal year due to the normal schedule of payments.

The District maintains an “Aa2” bond rating from Moody’s for general obligation debt. Additional information about the District’s long-term debt can be found in the notes to financial statements (see Note 4).

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

### *ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATES*

At the time these financial statements were prepared and audited, the District was aware of circumstances that could significantly affect its financial health in the future:

- There will be an increase in BEP funds from the State in the ensuing fiscal year.
- There is a projected increase of 2.2% for the FSSD property taxes, due to the move of 2.5 cents from the debt service tax rate to the general purpose tax rate.

All of these factors were considered in preparing the District's budget for the 2012-2013 fiscal year. In conjunction with the FY 2012-2013 budget, the District decided not to increase the property tax rate. Total General Fund appropriations approved by the District's Board of Education total \$42.8 million for the 2012-2013 fiscal year.

### *REQUESTS FOR INFORMATION*

This financial report is designed to provide a general overview of the District's finances for all those interested in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director of Schools for Finance and Administration at 507 New Highway 96 West, Franklin, Tennessee 37064.

## **BASIC FINANCIAL STATEMENTS**

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Statement of Net Assets**

**June 30, 2012**

<u>Assets</u>	<u>Primary Government Governmental Activities</u>
Cash and cash equivalents	\$ 10,316,610
Receivables (net of allowance of uncollectibles):	
Taxes	12,289,771
Due from other governments	17,199,634
Accounts receivable	33,119
Inventories	38,791
Other assets	196,911
Non depreciable capital assets	2,244,827
Depreciable capital assets net accumulated depreciation	<u>58,966,526</u>
 Total Assets	 <u><u>101,286,189</u></u>
 <u>Liabilities</u>	
Accounts payable	291,222
Accrued payroll and other liabilities	5,310,584
Retainage payable	71,397
Accrued interest	93,993
Unearned/deferred revenue	27,597,100
Long-term liabilities due within one year	4,413,409
Long-term liabilities due in more than one year	<u>50,015,649</u>
 Total Liabilities	 <u>87,793,354</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	22,111,927
Restricted for:	
Special programs	61,904
Debt service	2,123,192
Capital projects	1,174,128
Unrestricted	<u>(11,978,316)</u>
 Total Net Assets	 <u>13,492,835</u>
 Total Liabilities and Net Assets	 <u><u>\$ 101,286,189</u></u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Statement of Activities**

**For the Year Ended June 30, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>			Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Revenue and Changes in Net Assets
<b>Functions / Programs:</b>					<u>Primary Governmental Activities</u>
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Regular instruction	\$ 28,211,828	\$ 321,358	\$ 15,134,380	\$ 804,875	\$ (11,951,215)
Special needs instruction	6,197,358	-	1,098,039	-	(5,099,319)
Attendance and health	367,411	-	-	-	(367,411)
Transportation	1,655,882	-	-	-	(1,655,882)
Plant operation and maintenance	5,782,195	-	-	-	(5,782,195)
Food service	1,975,712	774,854	1,070,699	-	(130,159)
Community service	1,128,707	938,669	100,000	-	(90,038)
Administration	4,060,633	-	-	-	(4,060,633)
Interest of debt	3,049,701	-	-	-	(3,049,701)
Total Governmental Activities	<u>\$ 52,429,427</u>	<u>\$ 2,034,881</u>	<u>\$ 17,403,118</u>	<u>\$ 804,875</u>	<u>\$ (32,186,553)</u>
<b>General Revenues:</b>					
Property taxes					18,140,797
County shared taxes					14,711,715
Unrestricted investment earnings and rental income					58,630
Other					<u>250,047</u>
Total general revenues					<u>33,161,189</u>
Change in net assets					974,636
Net assets - beginning of year					<u>12,518,199</u>
Net assets - end of year					<u><u>\$ 13,492,835</u></u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Balance Sheet  
Governmental Funds**

**June 30, 2012**

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 7,159,632	\$ 1,085,886	\$ 2,071,017	\$ 75	\$ 10,316,610
Taxes receivable	12,289,771	-	-	-	12,289,771
Due from other governments	10,839,164	88,242	5,546,430	725,798	17,199,634
Receivables	19,344	-	-	13,775	33,119
Inventory	-	-	-	38,791	38,791
Due from other funds	674,589	-	-	-	674,589
<b>Total Assets</b>	<b>\$ 30,982,500</b>	<b>\$ 1,174,128</b>	<b>\$ 7,617,447</b>	<b>\$ 778,439</b>	<b>\$ 40,552,514</b>
<u>Liabilities and Fund Balances</u>					
Accounts payable	\$ 108,076	\$ 183,146	\$ -	\$ -	\$ 291,222
Accrued liabilities	4,849,184	-	-	461,400	5,310,584
Retainage payable	-	71,397	-	-	71,397
Due to other funds	-	-	-	674,589	674,589
Deferred revenue	22,473,204	-	5,494,255	69,105	28,036,564
<b>Total Liabilities</b>	<b>\$ 27,430,464</b>	<b>\$ 254,543</b>	<b>\$ 5,494,255</b>	<b>\$ 1,205,094</b>	<b>\$ 34,384,356</b>
<u>Fund Balance:</u>					
<u>Nonspendable:</u>					
Inventory	-	-	-	38,791	38,791
<u>Restricted:</u>					
Restricted for Extended Contract	26,526	-	-	-	26,526
<u>Committed:</u>					
Committed for Young Scholars	35,378	-	-	-	35,378
Committed for Debt Service	-	-	2,123,192	-	2,123,192
Committed for Capital Projects	-	919,585	-	-	919,585
Unassigned	3,490,132	-	-	(465,446)	3,024,686
<b>Total Fund Balances</b>	<b>3,552,036</b>	<b>919,585</b>	<b>2,123,192</b>	<b>(426,655)</b>	<b>6,168,158</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 30,982,500</b>	<b>\$ 1,174,128</b>	<b>\$ 7,617,447</b>	<b>\$ 778,439</b>	<b>\$ 40,552,514</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Reconciliation of the Balance Sheet to the Statement of Net Assets of Governmental Activities**

**June, 30 2012**

<b>Amounts reported for fund balance - total governmental funds</b>		\$ 6,168,158
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		61,211,352
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
County collected and shared taxes		439,465
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(93,993)
Bond issue costs are amortized over the life of the notes in the fund statements.		196,911
Loss on bond refunding discounts and premiums are amortized as a component of interest over the life of the bonds on the statement of net assets.		(288,205)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds.		
General long-term bonds and notes	(49,667,169)	
Capital lease payable	(137,100)	
Other post employment benefits	(3,940,748)	
Compensated absences	(395,836)	(54,140,853)
<b>Net assets of governmental activities</b>		<b>\$ 13,492,835</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds**

**For the Year Ended June 30, 2012**

<u>Revenues</u>	<u>General</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Taxes	\$ 11,945,875	\$ -	\$ 6,175,975	\$ -	\$ 18,121,850
Intergovernmental	28,392,821	804,875	-	3,719,219	32,916,915
Charges for services	321,358	-	-	1,713,523	2,034,881
Uses of money and property	52,914	1,181	4,535	-	58,630
Other	98,851	-	23,438	147,803	270,092
<b>Total Revenue</b>	<b>40,811,819</b>	<b>806,056</b>	<b>6,203,948</b>	<b>5,580,545</b>	<b>53,402,368</b>
<u>Expenditures</u>					
Current:					
Regular instruction	26,624,078	209,358	-	1,233,552	28,066,988
Special needs instruction	5,053,152	-	-	1,148,396	6,201,548
Attendance and health	367,339	-	-	-	367,339
Transportation	1,444,371	-	-	-	1,444,371
Plant operation and maintenance	3,311,538	-	-	-	3,311,538
Food service	-	-	-	1,912,526	1,912,526
Community service	-	-	-	1,127,529	1,127,529
Administration	3,579,121	-	180,899	-	3,760,020
Debt service	1,194	72,464	5,680,576	-	5,754,234
Capital outlay	16,208	1,782,015	-	-	1,798,223
<b>Total Expenditures</b>	<b>40,397,001</b>	<b>2,063,837</b>	<b>5,861,475</b>	<b>5,422,003</b>	<b>53,744,316</b>
Excess (deficiency) revenues over expenditures	414,818	(1,257,781)	342,473	158,542	(341,948)
<u>Other Financing Sources (Uses)</u>					
Proceeds from capital leases	-	209,564	-	-	209,564
Refunding bond payment	-	-	(10,391,861)	-	(10,391,861)
Bond issuance	-	-	9,915,000	-	9,915,000
Bond discount/premiums	-	-	535,233	-	535,233
Sale of general capital assets	3,437	-	-	-	3,437
Transfer from other funds	66,841	-	(1,000,000)	-	(933,159)
Transfer to other funds	-	1,000,000	-	(66,841)	933,159
<b>Total Other Financing Sources (Uses)</b>	<b>70,278</b>	<b>1,209,564</b>	<b>(941,628)</b>	<b>(66,841)</b>	<b>271,373</b>
Net Change in Fund Balance	485,096	(48,217)	(599,155)	91,701	(70,575)
Fund Balance, Beginning of Year	3,066,940	967,802	2,722,347	(492,794)	6,264,295
Change in inventory reserve	-	-	-	(25,562)	(25,562)
<b>Fund Balance, End of Year</b>	<b>\$ 3,552,036</b>	<b>\$ 919,585</b>	<b>\$ 2,123,192</b>	<b>\$ (426,655)</b>	<b>\$ 6,168,158</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities**

**For the Year Ended June 30, 2012**

**Amounts reported for net change in fund balance - total governmental funds** \$ (70,575)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period.

Cost of assets acquired	1,798,223	
Depreciation expense	<u>(2,914,500)</u>	(1,116,277)

Loss on disposal of assets not fully depreciated		(85,522)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

County collected and shared taxes		(1,741)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets.

Refunding Bond Payment	10,391,861	
Capital lease	(209,564)	
Bond Issuance	(9,915,000)	
Bond Premium	(535,233)	
Capital lease payments	72,464	
Bond and note payments	<u>4,185,000</u>	3,989,528

Interest is accrued on the outstanding bonds in the statement of activities, whereas in the governmental funds, an interest expenditure is reported when due.		32,763
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Governmental funds report the effects of bond issuance costs, premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized for governmental activities.

Bond issue cost	56,788	
Amortization of refunding loss and premiums and discounts on bonds	(403,812)	
Amortization of bond related costs	<u>(123,208)</u>	(470,232)

Expenses reported for governmental activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

Change in reserve for inventory	(25,562)	
Compensated absences	33,705	
Other post employment benefits	(129,568)	
Accreted interest	<u>(1,181,883)</u>	<u>(1,303,308)</u>

Change in net assets of governmental activities		<u>\$ 974,636</u>
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**FRANKLIN SPECIAL SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

General Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$ 11,621,620	\$ 11,621,620	\$ 11,551,880	\$ (69,740)
Property tax - prior year	225,000	225,000	240,490	15,490
Property tax - pickup	50,000	50,000	108,360	58,360
Interest and penalty on delinquent taxes	40,000	40,000	45,145	5,145
Total special school district taxes	<u>11,936,620</u>	<u>11,936,620</u>	<u>11,945,875</u>	<u>9,255</u>
Intergovernmental revenue				
County Revenue:				
Property tax - current year	10,549,579	10,549,579	10,514,864	(34,715)
Property tax - prior year	45,000	45,000	78,566	33,566
Taxes - other	62,000	62,000	73,554	11,554
In lieu of tax payments	10,000	10,000	14,835	4,835
Interest and penalty on delinquent taxes	30,000	30,000	30,430	430
Local sales tax	4,250,000	4,250,000	3,996,673	(253,327)
Total county revenue	<u>14,946,579</u>	<u>14,946,579</u>	<u>14,708,922</u>	<u>(237,657)</u>
State Funds:				
Basic education program	12,665,000	12,665,000	12,669,000	4,000
Career ladder	250,000	250,000	228,346	(21,654)
Career ladder extended contract	91,000	91,000	104,100	13,100
Career ladder extended contract - ARRA	-	37,847	37,851	4
On-behalf contribution OPEB	-	190,828	190,828	-
Other state funds	275,800	379,464	386,904	7,440
Total state funds	<u>13,281,800</u>	<u>13,614,139</u>	<u>13,617,029</u>	<u>2,890</u>
Federal Funds:				
Education of handicapped	-	66,870	66,870	-
Total federal funds received	<u>-</u>	<u>66,870</u>	<u>66,870</u>	<u>-</u>
Total Intergovernmental revenue	<u>28,228,379</u>	<u>28,627,588</u>	<u>28,392,821</u>	<u>(234,767)</u>
Charges for services				
Tuition - out-of-district students	45,000	45,000	34,012	(10,988)
Tuition summer school	275,000	275,000	257,080	(17,920)
Other Charges	30,000	30,000	30,266	266
Total charges for services	<u>350,000</u>	<u>350,000</u>	<u>321,358</u>	<u>(28,642)</u>
Other Revenue from Local Sources:				
Interest earnings	10,000	10,000	7,951	(2,049)
Facility rentals	95,000	95,000	44,963	(50,037)
Other	87,000	87,000	98,851	11,851
Total other revenues	<u>192,000</u>	<u>192,000</u>	<u>151,765</u>	<u>(40,235)</u>
Total Revenues	<u>\$ 40,706,999</u>	<u>\$ 41,106,208</u>	<u>\$ 40,811,819</u>	<u>\$ (294,389)</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Actual and Budget (GAAP Basis), Continued

General Fund

For the Year Ended June 30, 2012

Expenditures:	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
<b>Regular Instruction:</b>				
Principals and assistant principals	\$ 1,508,446	1,508,446	1,442,981	(65,465)
Supervisors	399,632	420,027	405,209	(14,818)
Teachers	14,866,208	14,739,873	14,603,774	(136,099)
Substitute teachers	300,000	303,118	301,336	(1,782)
Guidance personnel	639,475	639,475	610,960	(28,515)
Library personnel	445,597	445,597	429,117	(16,480)
Other salaries and wages	1,855,769	1,980,428	1,807,782	(172,646)
Career ladder program	207,000	207,000	151,263	(55,737)
Benefits	6,070,935	6,141,880	5,793,241	(348,639)
Contracted services and consultants	198,834	197,591	201,129	3,538
Travel - instructional personnel	3,140	3,298	1,652	(1,646)
Instructional materials and supplies	601,840	602,935	581,107	(21,828)
Other	324,692	340,947	294,527	(46,420)
<b>Total regular instruction</b>	<b>27,421,568</b>	<b>27,530,615</b>	<b>26,624,078</b>	<b>(906,537)</b>
<b>Special Needs Instruction</b>				
Supervisor	75,619	75,619	78,587	2,968
Teachers	2,533,388	2,533,388	2,451,837	(81,551)
Psychological personnel	561,110	561,110	467,799	(93,311)
Substitute teachers	50,000	50,000	70,688	20,688
Other personnel	448,351	463,351	433,100	(30,251)
Career ladder	29,200	29,200	26,184	(3,016)
Contracts	457,500	477,355	475,241	(2,114)
Instruction materials and supplies	20,100	31,900	28,307	(3,593)
Benefits	1,155,964	1,171,279	1,011,829	(159,450)
Other	7,640	12,540	9,580	(2,960)
<b>Total special needs instruction</b>	<b>5,338,872</b>	<b>5,405,742</b>	<b>5,053,152</b>	<b>(352,590)</b>
<b>Attendance and Health:</b>				
Supervisor and other wages	262,578	262,578	252,902	(9,676)
Career ladder program	13,000	13,000	12,000	(1,000)
Benefits	104,817	104,817	93,512	(11,305)
Supplies and materials	7,760	11,180	5,350	(5,830)
Other	3,900	3,900	3,575	(325)
<b>Total attendance and health</b>	<b>392,055</b>	<b>395,475</b>	<b>367,339</b>	<b>(28,136)</b>
<b>Transportation:</b>				
Bus drivers and supervisors	781,133	781,133	767,095	(14,038)
Other salaries and wages	80,610	80,610	80,581	(29)
Benefits	350,362	350,362	332,397	(17,965)
Repairs and maintenance	106,000	106,000	94,801	(11,199)
Contracted services	4,832	4,832	4,832	-
Fuel	151,380	151,380	133,992	(17,388)
Insurance	20,000	20,000	19,417	(583)
Rent	5,200	5,200	3,258	(1,942)
Other	11,600	11,600	7,998	(3,602)
<b>Total transportation</b>	<b>1,511,117</b>	<b>1,511,117</b>	<b>1,444,371</b>	<b>(66,746)</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in  
Fund Balance - Actual and Budget (GAAP Basis), Continued

General Fund

For the Year Ended June 30, 2012

Expenditures, Continued:	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Plant Operation and Maintenance:				
Supervisors	64,142	64,142	64,137	(5)
Custodial services	978,318	978,318	1,019,656	41,338
Other salaries and wages	336,130	336,130	275,418	(60,712)
Benefits	513,399	513,399	501,977	(11,422)
Repairs and maintenance	81,650	136,950	128,776	(8,174)
Other contracted services	110,000	110,000	93,886	(16,114)
Utilities	1,043,600	1,043,600	910,589	(133,011)
Insurance	92,400	92,400	92,400	-
Other materials and supplies	194,000	225,300	223,848	(1,452)
Other	3,000	3,000	851	(2,149)
Total plant operation and maintenance	3,416,639	3,503,239	3,311,538	(191,701)
Administration:				
Director of schools	168,975	168,975	168,336	(639)
Accounting	390,298	390,298	390,903	605
Other salaries and wages	745,301	745,301	760,592	15,291
Benefits	362,158	362,158	350,259	(11,899)
Travel	7,860	7,485	5,111	(2,374)
Communications	130,500	130,500	129,320	(1,180)
Board services	320,000	320,000	316,170	(3,830)
Trustee commission	489,000	489,000	491,787	2,787
Insurance	217,000	217,000	200,142	(16,858)
Professional services	39,000	39,000	30,973	(8,027)
Other contracted services	236,634	398,673	371,720	(26,953)
Materials and supplies	49,300	85,845	56,058	(29,787)
Data processing	18,500	18,500	15,738	(2,762)
On-behalf payments OPEB	-	190,828	190,828	-
Other	122,841	126,696	101,184	(25,512)
Debt service	8,000	8,000	1,194	(6,806)
Capital outlay	-	16,208	16,208	-
Total administration	3,305,367	3,714,467	3,596,523	(117,944)
Total Expenditures	41,385,618	42,060,655	40,397,001	(1,663,654)
Excess revenues over (under) expenditures	(678,619)	(954,447)	414,818	1,369,265
Other Financing Sources (Uses):				
Sale of general capital assets	-	-	3,437	3,437
Transfer in	80,000	80,000	66,841	(13,159)
Total Other Financing Sources (Uses)	80,000	80,000	70,278	(9,722)
Net change in Fund Balance	(598,619)	(874,447)	485,096	1,359,543
Fund Balance, Beginning of Year	1,750,035	1,500,034	3,066,940	-
Fund Balance, End of Year	\$ 1,151,416	\$ 625,587	\$ 3,552,036	\$ 2,926,449

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Notes to Financial Statements

For the Year Ended June 30, 2012

### **1.) Summary of Significant Accounting Policies**

#### Reporting Entity

The financial statements of Franklin Special School District, Franklin, Tennessee have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The accompanying statements include all fund types of the Franklin Special School District. The District provides public schools to the Franklin City area for grades kindergarten through eighth. The District is a public and governmental body established by Chapter 563 of the Private Acts of 1949 of the State of Tennessee. The District is operated by six elected board members and an appointed Director of Schools.

In accordance with the Governmental Accounting Standards Board Statement 14, the financial statements of all entities over which the District is financially accountable are included in the General Purpose Financial Statements. Financial accountability ordinarily involves meeting both of the following criteria; the primary government is accountable for the potential component unit and the primary government is able to impose its will on the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. There were no components units considered to meet these criteria for the District.

The individual schools operate Activity funds which are under the supervision of the principals and are not included in this report. Financial statements for these funds are available at the Board of Education.

#### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Franklin Special School District has no business-type activities or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants (including fees and fines) who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

# FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements

For the Year Ended June 30, 2012

## **1.) Summary of Significant Accounting Policies-(Continued)**

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide 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 when a liability is incurred, regardless of the timing of related cash flows. District property taxes are billed and collected by the county. Property taxes as well as shared tax revenues are recognized if remitted to the District within 60 days of year end. Property taxes are assessed by the District each January, however, the taxes are not available until the next fiscal year so the current year assessment is deferred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Sales taxes as well as the District's property taxes which are billed and collected by the county and other shared revenues through intermediary collecting governments are considered measurable and available if received within 30 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Rents, after school fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources to be used for the acquisition, construction, or maintenance of major capital assets as well as significant repairs, maintenance, materials, and supplies.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt including principal, interest and related costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between the government's various functions whose eliminations would distort the direct costs and program revenues reported for the various functions concerned.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Notes to Financial Statements

For the Year Ended June 30, 2012

### **1.) Summary of Significant Accounting Policies-(Continued)**

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Amounts reported as program revenues include (i) charges to customers or students (including fines and fees) for goods, services, or privileges provided; (ii) operation grants and contributions; (iii) capital grants and contributions. General revenues include all taxes internally dedicated resources. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Cash, Cash Equivalents and Investments

The District is authorized to deposit funds in local banks and purchase certificates of deposit in local banks as well as participate in the Local Government Investment Pool administered by the State of Tennessee. The pool contains investments in certificates of deposits, U.S. Treasury securities and Repurchase Agreements backed by the U.S. Treasury Securities. The investment pool is administered by the Treasurer of the State of Tennessee. District policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the State Collateral Pool or be deposited in an escrow account in another institution for the benefit of the Franklin Special School District and must be a minimum of 105% of the value of the deposits placed in the institution less the amount protected by federal deposit insurance. The state collateral pool is administered to pay an assessment to cover any deficiency.

Cash and cash equivalents consist of cash, savings accounts and short term certificates of deposit with an original maturity of three months or less. Due to liquidity, the District considers the funds deposited in the local government investment pool as a cash equivalent for financial statement and cash flow purposes. The fair value of the position in the investment pool is the same as the value of the pool shares.

#### Inventory

Inventories have been valued at lower of cost or market using the first-in, first-out method (FIFO). Inventory is accounted for on the consumption basis in fund financial statements and is expensed when used in the government-wide financial statement. Inventory consists primarily of food and supplies.

#### Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

All trade receivables and property tax receivables are shown net of an allowance for uncollectibles.

#### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, streets and sidewalks, and drainage systems are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**1.) Summary of Significant Accounting Policies-(Continued)**

Capital Assets

All capital assets are valued at historical cost or estimated at historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation has been provided over estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-50 years
Equipment	5-20 years
Furniture and fixtures	5-20 years

Appropriations

Appropriations to other funds are accounted for as inter-fund transfers in the governmental fund statements, and are eliminated in the government-wide statements. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as revenues in the fund being reimbursed and expenses in the fund reimbursing.

Compensated Absences

General policy of the District permits the accumulation of unused sick leave; however, payments for accumulated sick leave upon termination are not permitted. District policy does permit payments upon retirement if certain guidelines are met. Employees are required to take vacations annually with no carryover or payment of unused vacation days allowed. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in government funds only if they have matured, for example, as a result of employee terminations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the statement of net assets.

Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the deferred loss on refunding and applicable discounts and premiums. Bond issue costs are reported net of amortization in other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are not reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Notes to Financial Statements

For the Year Ended June 30, 2012

### 1.) Summary of Significant Accounting Policies-(Continued)

#### Fund Equity

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance-amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance- amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority, the School Board. To be reported as committed, amounts cannot be used for any other purposes unless the Board takes the same highest level action to remove or change the constraint.
- Assigned fund balance-amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the Board delegates the authority.
- Unassigned fund balance- amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Board establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as special incentives). Assigned fund balance is established by School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

The details of the fund balances are included in the Governmental Funds Balance Sheet as listed in the table of contents. Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the School Board or the Assignment has been changed by the Superintendent. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

#### Net Assets

Net assets in the government-wide financial statements is divided into three components, investment in capital assets, net of related debt, restricted and unrestricted. Capital assets, net of related debt, exclude accreted interest of \$11,247,591 on capital appreciation bonds.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**1.) Summary of Significant Accounting Policies-(Continued)**

Property Taxes

The District is prorated a portion of the county tax levy for the schools based on averaged daily attendance. Taxes are also levied by the District on property within the Special School District boundaries. The county bears the collection responsibilities. Tax revenues are recognized if remitted to the District within 30 days for governmental fund financial statements and 60 days for government-wide financial statements. Taxes are levied October 1 and become delinquent February 28 each year. All taxes on real property are declared a lien on such realty from January 1 of the year the assessments are made. However, since the taxes are not available until the next fiscal year, the taxes are deferred. The District tax rates per \$100 of assessed value are as follows:

	<u>2012</u>	<u>2011</u>
General Fund	\$ .626	.75
Debt Service	.325	.39

**2.) Deposits and Investments**

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover the collateral securities in the possession of an outside party. The District's policy requires deposits to be 105% secured by collateral, less the amount of Federal Deposit Insurance Corporation insurance (FDIC) or deposited in an institution which participates in the State Collateral Pool. Deposited funds may be invested in certificated of deposit in institutions with and established record of fiscal health and service. Collateral agreements must be approved prior to deposit of funds as provided by law. The School Board approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of District staff.

At June 30, 2012, there were no amounts exposed to custodial credit risk.

Investments

At June 30, 2012 the District's reporting entity had the following investments:

	<u>Fair Value/ Carrying Amount</u>	<u>Maturity</u>	<u>Rating</u>
Local Government Investment Pool	\$9,277,786	N/A	N/A
Less Liquid Investments (Cash equivalents)	<u>(9,277,786)</u>		

Total Investments per financial statements \$           -

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of exposure to fair value losses arising from increasing interest rates.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**2.) Deposits and Investments- (Continued)**

**Credit Risk:**

The District's general investment policy allows investments in certificates of deposit in local banks and investment in the Local Government Investment Pool.

**Custodial Risk:**

The District currently does not invest in securities held by counter parties other than the State Investment Pool.

**3.) Capital Assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

<u>Asset</u>	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,244,827	-	-	\$ 2,244,827
<u>Capital assets being depreciated:</u>				
Buildings	56,805,314	-	-	56,805,314
Improvements	24,091,668	1,308,666	(107,558)	25,292,776
Equipment	9,063,595	320,217	(533,931)	8,849,879
Vehicles	2,356,406	169,340	(105,854)	2,419,892
<b>Total</b>	<b>\$ 94,561,809</b>	<b>\$1,798,223</b>	<b>(747,343)</b>	<b>\$ 95,612,690</b>
<u>Accumulated Depreciation</u>				
	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Buildings	\$ 19,300,354	1,131,588	-	\$ 20,431,942
Improvements	3,500,301	1,316,980	(23,892)	4,793,389
Equipment	7,736,627	249,230	(528,639)	7,457,218
Vehicles	1,607,939	216,702	(105,854)	1,718,787
<b>Total</b>	<b>\$ 32,145,221</b>	<b>\$2,914,500</b>	<b>(658,385)</b>	<b>\$ 34,401,336</b>
Governmental Activities Net Capital Assets	<u>\$ 62,416,588</u>			<u>\$ 61,211,353</u>

Depreciation expense, including depreciation on assets acquired through capital leases was charged to functions programs of the primary government as follows:

Instruction	\$ 180,330
Attendance and Health	72
Transportation	207,261
Plant Operation and Maintenance	2,471,532
Food Service	35,779
Community Service	128
Administration	<u>19,398</u>
<b>Total</b>	<b><u>\$2,914,500</u></b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**4.) Long-Term Debt and Other Obligations Payable**

The government issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities for general school purposes.

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Accreted Interest</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Bonds	\$ 52,900,286	9,915,000	\$1,181,883	14,330,000	\$49,667,169	\$4,300,000
Capital Outlay Notes	-	-	-	-	-	-
Capital Lease Obligation	-	209,564	-	72,464	137,100	67,277
Compensated Absences	429,540	189,223	-	222,928	395,836	46,132
Total	<u>53,329,826</u>	<u>\$10,313,787</u>	<u>\$1,181,883</u>	<u>\$14,625,392</u>	50,200,105	<u>\$4,413,409</u>
Deferred amount On refunding	(214,058)				( - )	
Discounts/Premiums	<u>(189,921)</u>				288,205	
	52,925,847				<u>50,488,310</u>	
Net OPEB obligation	<u>3,811,180</u>				3,940,748	
	<u>\$56,737,027</u>				<u>\$54,429,058</u>	

Long term debt payable at June 30, 2012 is comprised of the following:

1999 Series limited tax school capital appreciation bonds issued June 1999 With interest rates ranging 3.8% to 5.2%	\$ 21,497,169
2007 Series A limited tax school bonds issued August 2007 With interest ranging 4% to 4.75%	12,005,000
2009 Series A limited tax school refunding bonds issued March 2009 With interest rate ranging from 4% to 5%	5,500,000
2012 Series limited tax school refunding bonds issued May 2012 With interest rate ranging from 2% to 4%	<u>9,915,000</u>
	\$ <u>49,667,169</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**4.) Long-Term Debt and Other Obligations Payable-(Continued)**

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2012 including interest payments as follows:

<u>Year</u>	<u>Bonds</u>	<u>Notes</u>	<u>Interest</u>	<u>Total</u>
2013	4,300,000	-	1,122,723	5,422,723
2014	4,320,000	-	1,012,533	5,332,533
2015	2,727,074	-	3,627,659	6,354,733
2016	2,591,720	-	3,787,763	6,379,483
2017	2,499,084	-	3,877,724	6,376,808
2018-2022	9,471,700	-	13,360,145	22,831,845
2023-2027	4,940,000	-	2,577,909	7,517,909
2028-2032	6,155,000	-	1,578,516	7,733,516
2033	1,415,000	-	68,588	1,483,588
	<u>\$ 38,419,578</u>	<u>-</u>	<u>\$31,013,560</u>	<u>\$69,433,138</u>
Accreted Interest	<u>11,247,591</u>		<u>(11,247,591)</u>	
	<u>\$ 49,667,169</u>		<u>\$19,765,969</u>	

The District entered into leases for the purchase of certain energy saving and computer assets. The leases require repayment terms and have been accounted for as financing transactions. The District will obtain title to the leased capital assets by satisfying the minimum lease payments. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$465,798
Less accumulated depreciation	<u>(204,889)</u>
Total	<u>\$260,909</u>

The present value of the future minimum lease payments under the lease agreement are as follows:

<u>Year Ending June 30,</u>	
2013	\$67,277
2014	<u>69,823</u>
Total	<u>\$137,100</u>

The District normally liquidated bonds and capital notes from the Debt Service Fund and short term borrowings from the General Fund. Compensated absences and OPEB obligations are generally liquidated from the General Fund.

**Bond Refunding**

On September 15, 2012, the District issued \$9,915,000 2012 Series Limited Tax School Refunding bonds with a premium of \$535,233 and bond issuance cost and underwriter fees of \$56,788. \$10,391,861 of the current issuance was used to current refund \$10,145,000 of 2002 Series A school tax refunding bonds and its premium. The current refunding was done to take advantage of more favorable interest rate terms. The present value savings of the refunding is \$788,362.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**5.) Receivables and Deferred Revenue**

A summary of receivables at June 30, 2012 is as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total
Property Taxes	\$ 12,289,808	-	\$ 5,546,430	-	\$ 17,836,238
Customer and Other	19,344	-	-	11,506	30,850
Other Governments	10,839,164	88,242	-	725,798	11,653,204
Less Allowance	-	-	-	(2,269)	(2,269)
<b>Total</b>	<b>\$ 23,148,316</b>	<b>\$ 88,242</b>	<b>\$ 5,546,430</b>	<b>\$735,035</b>	<b>\$ 29,518,023</b>

Unearned/deferred revenue consists of unearned revenue and revenues that are not considered to be available to liquidate liabilities of the current period. At year end the various components of deferred revenues are as follows:

	<u>Government –Wide Statements</u>	<u>Fund Statements</u>
Unlevied Property Taxes (Unavailable)	\$ 17,655,708	\$17,655,708
Unlevied County Taxes (Unavailable)	10,182,933	10,182,933
County Collected and Shared (Unavailable)	-	439,462
Cafeteria Charges and Tuition (Unearned)	69,105	69,105
<b>Total</b>	<b>\$ 27,907,746</b>	<b>\$28,347,208</b>

**6.) Pension Plan**

**A. Teacher Plan Description**

The Franklin Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member’s high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted is the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at: [www.tn.gov/treasury/tcrs/Schools](http://www.tn.gov/treasury/tcrs/Schools).

## FRANKLIN SPECIAL SCHOOL DISTRICT

### Notes to Financial Statements

For the Year Ended June 30, 2012

#### **6.) Pension Plan-(Continued)**

##### Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for Franklin Special School District is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2012 was 9.05% of annual covered payroll. The employer contribution requirement of Franklin Special School District is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010 were \$1,919,491, \$1,891,655, and \$ 1,359,433, respectively, equal to the required contributions for each year.

##### B. Non-Teacher Plan Description

Employees of Franklin Special School District are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Franklin Special School District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.tn.gov/treasury/tcrs/PS/](http://www.tn.gov/treasury/tcrs/PS/).

##### Funding Policy

Franklin Special School District requires employees to contribute 5.0% of earnable compensation.

Franklin Special School District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 8.77% of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirement for Franklin Special School District is established and may be amended by the TCRS Board of Trustees.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**6.) Pension Plan-(Continued)**

Annual Pension Cost

For the year ending June 30, 2012, Franklin Special School District’s annual pension cost of \$586,087 to TCRS was equal to Franklin Special School District’s required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial costs method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. Franklin Special School District’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 6 years. An actuarial valuation was performed as of July 1, 2011, which established rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	586,087	100%	-
6/30/11	541,577	100%	-
6/30/10	567,371	100%	-

As of July 1, 2011, the most recent actuarial valuation date, the plan was 95.61 percent funded. The actuarial accrued liability for benefits was \$16.21 million, and the actuarial value of assets was \$15.49 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.71 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.36 million, and the ratio of the UAAL to the covered payroll was 11.18 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the AALs for benefits.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403B. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District had no fiduciary responsibility under the provisions of the plan. The plan specifically provides that all assets under the plan and all income attributable to those assets are solely the property of the employee.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**7.) Commitments and Contingencies**

Litigation

There were no pending lawsuits in which the District was involved, which would have material effect on the financial statements.

**8.) Interfund Transactions**

Interfund receivables and payables are attributable to obligations for operating transfers between funds. The actual cash transfer had not been made at June 30, 2012. This amounted to \$674,589.

<u>Due From:</u>	<u>Due To:</u>
Nonmajor Governmental Funds	<u>General Fund</u>
Total	<u>\$ 674,589</u>
	<u>\$ 674,589</u>

Interfund Transfers for the year ended June 30, 2012 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

<u>Transfer In:</u>	<u>Transfer Out:</u>		
	Other	Capital Projects	
	Governmental Funds	Fund	Total
General Fund	\$ 66,841	-	\$ 66,841
Debt Service Fund	-	1,000,000	1,000,000
Totals	<u>\$ 66,841</u>	<u>\$1,000,000</u>	<u>\$1,066,841</u>

**9.) Flexible Benefit Plan**

The District allows its employees to participate in a Cafeteria Plan under Section 125 of the Internal Revenue Code. Employees have the opportunity to choose among various tax free benefits and to have those benefits paid directly by the District. The plan is funded entirely by salary conversion amounts. Any forfeiture must be used to pay costs of the plan, reduce costs of benefits or refund pro rata to participants.

**10.) Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained coverage from commercial insurance carriers. These insurance coverages minimize the loss from risks to which the District is exposed. There were no significant reductions in insurance coverage and settled claims for losses have not significantly exceeded insurance coverage in any of the past three years.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**11.) On-Behalf Payments**

The State of Tennessee pays health insurance premiums for retired teachers on behalf of the District. These payments are made by the state to the Teacher Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the State Annual Financial Report. Payments made by the state to the Teacher Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2012, were \$172,138 and \$18,690 respectively. The District has recognized these on-behalf payments as revenues and expenditures in the General Purpose Fund.

**12.) Budget Compliance and Accountability**

Franklin Special School District is required by State statute to adopt annual budgets. The General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds' budgets are prepared on the basis where current available funds must be sufficient to meet current expenditures. Expenditures may not legally exceed appropriations authorized by the Board of Education and any authorized revisions. Appropriations lapse at the end of each fiscal year. The District's budgetary basis is consistent with generally accepted accounting principles.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts as prescribed by the Comptroller of the Treasury, State of Tennessee. Also, during the fiscal year, the expenditure budgets were amended by increasing appropriations in the General Fund by \$675,037, primarily to fund additional transportation expenditures, administrative costs, and plant operation and maintenance.

**13.) Deficit Fund Balance**

At June 30, 2012, the Food Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$174,776, due to low summer feeding and the Community Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$251,879, due to low MAC participation . Management is evaluating operations to develop a payback plan. The General Fund has the ultimate responsibility to fund such deficits.

**14.) Postemployment Healthcare Plan**

Plan Description

The District participates in the state administered Teacher Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**14.) Post Employment Healthcare Plan-(Continued)**

benefits. Subsequent to age 65, members who are also in the state’s retirement system may participate in a state administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state’s website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees’ premiums, since the committee is not prescriptive on that issue.

Employees of the District do not contribute for the employee coverage. The District contributes the monthly premium of \$479 for the PPO Plan, \$420 for the HMO Plan, and \$439 for the POS plan for each participating employee.

Annual OPEB Cost and Net OPEB Obligation

ARC	\$	699,000
Interest on NPO		152,447
Adjustment to the ARC		<u>(161,821)</u>
Annual OPEB Cost		689,626
Amount of contribution		<u>(560,058)</u>
Increase in NPO		129,568
Net OPEB obligation - 7/1/11		<u>3,811,180</u>
Net OPEB obligation - 6/30/12	\$	<u><u>3,940,748</u></u>

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End</u>
6/30/2012	Teachers Group	\$ 689,626	81.21%	\$ 3,940,748
6/30/2011	Teachers Group	\$ 1,452,940	38.74%	\$ 3,811,180
6/30/2010	Teachers Group	\$ 1,441,863	39.34%	\$ 2,921,052

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**14.) Post Employment Healthcare Plan-(Continued)**

Funded Status and Funding Progress

The funding status of the plan as of July 1, 2011 was as follows:

Actuarial valuation date	7/1/2011
Actuarial accrued liability (AAL)	\$ 6,107,000
Actuarial value of plan asset	\$ -
Unfunded actuarial accrued liability	\$ 6,107,000
Actuarial value of assets as a % of AAL	\$ -
Covered payroll	\$ 25,127,120
UAAL as a percentage of covered payroll	24%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent for fiscal year 2012. The trend will decrease to 8.75 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5percent by fiscal year 2021. The annual healthcare premium trend rate for the Medicare Supplement plan was 6.50 percent for fiscal year 2012. The trend will decrease to 6.25 percent in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2018. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2012

**15.) Subsequent Events**

Subsequent events were evaluated through October 19, 2012, when the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Required Supplementary Information

For the Year Ended June 30, 2012

Pension Plan  
 Schedule of Funding Progress  
 (dollar amounts expressed in thousands)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
July 1, 2011	\$15,495	\$16,205	\$711	95.61%	\$6,360	11.18%
July 1, 2009	\$11,995	\$12,099	\$104	99.41%	\$6,472	1.61%
July 1, 2007	\$10,501	\$10,631	\$130	98.78%	\$6,047	2.15%

OPEB Plan  
 Teacher Group Insurance Plan  
 Schedule of Funding Progress  
 (dollar amounts expressed in thousands)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll ( c )</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
July 1, 2009	\$ -	\$10,900	\$10,900	0.00%	\$25,127	43%
July 1, 2010	\$ -	\$10,967	\$10,967	0.00%	\$25,127	43%
July 1, 2011	\$ -	\$ 6,107	\$ 6,107	0.00%	\$25,127	24%

**COMBINING AND INDIVIDUAL NONMAJOR FUND  
STATEMENTS AND SCHEDULES**

### **NONMAJOR GOVERNMENT FUNDS**

Food Service Funds – This fund accounts for the operation of the school cafeterias.

Federal Projects Fund – This fund accounts for the federal and state grant revenues and expenditures.

Community Service Fund – This fund accounts for the operation of the before and after school child care program.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Combining Balance Sheet**

**Nonmajor Governmental Funds**

**June 30, 2012**

	Special Revenues Funds			
<u>Assets</u>	Food Service Fund	Federal Projects Fund	Community Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 50	\$ -	\$ 25	\$ 75
Accounts receivable	-	-	13,775	13,775
Due from other governments	151,020	543,298	31,480	725,798
Inventory	38,791	-	-	38,791
Total Assets	189,861	543,298	45,280	778,439
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accrued payroll and other liabilities	127,678	290,250	43,472	461,400
Due to other funds	208,786	253,048	212,755	674,589
Deferred revenue	28,173	-	40,932	69,105
Total Liabilities	364,637	543,298	297,159	1,205,094
 Fund Balances:				
Nonspendable:				
Inventory	38,791	-	-	38,791
Unassigned	(213,567)	-	(251,879)	(465,446)
Total Fund Balance	(174,776)	-	(251,879)	(426,655)
Total Liabilities and Fund Balances	\$ 189,861	\$ 543,298	\$ 45,280	\$ 778,439

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Combining Statement of Revenues, Expenditures, & Changes in Fund Balance**

**Nonmajor Governmental Funds**

**June 30, 2012**

	<u>Special Revenues Funds</u>			Total Nonmajor Governmental Funds
	Food Service Fund	Federal Projects Fund	Community Service Fund	
<b>Revenues</b>				
Intergovernmental:				
USDA and cafeteria related funds	\$ 1,070,699	\$ -	\$ -	\$ 1,070,699
Federal instruction, learning center and safety funds	-	1,517,351	100,000	1,617,351
Federal education of the handicapped funds	-	1,031,169	-	1,031,169
Charges for services:				
Cafeteria charges	774,854	-	-	774,854
Fees and tuition	-	-	938,669	938,669
Other	116,456	-	31,347	147,803
Total Revenues	<u>1,962,009</u>	<u>2,548,520</u>	<u>1,070,016</u>	<u>5,580,545</u>
<b>Expenditures</b>				
Food service:				
Labor	693,683	-	-	693,683
Employee benefits	294,171	-	-	294,171
Food	826,572	-	-	826,572
Other Costs	98,100	-	-	98,100
Regular instruction:				
Labor	-	884,954	-	884,954
Employee benefits	-	172,197	-	172,197
Supplies and materials	-	81,098	-	81,098
Other costs	-	95,303	-	95,303
Special needs instruction:				
Current:				
Labor	-	566,458	-	566,458
Employee benefits	-	480,049	-	480,049
Supplies and materials	-	34,403	-	34,403
Other costs	-	67,486	-	67,486
Program Costs:				
Labor	-	54,575	742,537	797,112
Employee benefits	-	4,175	189,753	193,928
Other costs	-	40,981	95,508	136,489
Total Expenditures	<u>1,912,526</u>	<u>2,481,679</u>	<u>1,027,798</u>	<u>5,422,003</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>49,483</u>	<u>66,841</u>	<u>42,218</u>	<u>158,542</u>
Other Financing Sources (Uses)				
Transfer in (out)	-	(66,841)	-	(66,841)
Total other Financing Sources (Uses)	<u>-</u>	<u>(66,841)</u>	<u>-</u>	<u>(66,841)</u>
Net Change in Fund Balance	49,483	-	42,218	91,701
Fund Balance, Beginning of Year	(198,697)	-	(294,097)	(492,794)
Change in reserve for inventory	(25,562)	-	-	(25,562)
Fund Balance, End of Year	<u>\$ (174,776)</u>	<u>\$ -</u>	<u>\$ (251,879)</u>	<u>\$ (426,655)</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

Food Service Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
USDA reimbursements	\$ 845,400	\$ 949,170	\$ 1,052,928	\$ 103,758
State matching	17,275	17,275	17,771	496
Total intergovernmental	862,675	966,445	1,070,699	104,254
Charges for services				
Student lunches	530,000	690,000	478,129	(211,871)
Adult lunches	55,000	55,000	51,366	(3,634)
Student breakfast	38,500	38,500	44,905	6,405
A-la-carte sales	185,000	185,000	200,454	15,454
Rebates and other	85,760	85,760	116,456	30,696
Total charges for services	894,260	1,054,260	891,310	(162,950)
 Total Revenues	1,756,935	2,020,705	1,962,009	(58,696)
 Expenditures:				
Food	550,000	878,770	826,572	(52,198)
Labor	648,700	701,200	693,683	(7,517)
Fringe benefits	274,337	274,337	294,171	19,834
Supplies	48,790	48,790	62,008	13,218
Transportation	10,000	10,000	9,910	(90)
Repairs and maintenance	10,000	10,000	11,887	1,887
Other	16,410	16,410	14,295	(2,115)
 Total Expenditures	1,558,237	1,939,507	1,912,526	(26,981)
 Excess (deficiency) revenues over expenditures (Net change in Fund Balance)	198,698	81,198	49,483	(31,715)
 Fund Balance, Beginning of Year	891	(180,538)	(198,697)	(18,159)
Change in Reserve for Inventory	-	-	(25,562)	(25,562)
Fund Balance, End of Year	\$ 199,589	\$ (99,340)	\$ (174,776)	\$ (75,436)

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

Federal Projects Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Title I	\$ 569,895	\$ 576,067	\$ 544,503	\$ (31,564)
Title II	111,031	144,936	132,149	(12,787)
Title III	60,307	66,002	62,454	(3,548)
IDEA - part B and preschool	1,141,840	1,140,514	1,031,169	(109,345)
First to the Top	-	209,627	125,590	(84,037)
Federal Ed Jobs Program	-	588,785	588,478	(307)
REMS	101,849	101,849	64,177	(37,672)
Total Revenues	<u>1,984,922</u>	<u>2,827,780</u>	<u>2,548,520</u>	<u>(279,260)</u>
Expenditures:				
Regular instruction:				
Teachers	241,568	253,811	255,732	1,921
Other salaries	318,420	648,551	629,222	(19,329)
Benefits	143,495	197,416	172,197	(25,219)
Instructional supplies and materials	8,648	152,389	81,098	(71,291)
Other	31,059	125,945	95,303	(30,642)
Total regular instruction	<u>743,190</u>	<u>1,378,112</u>	<u>1,233,552</u>	<u>(144,560)</u>
Special needs instruction:				
Teachers and assistants	665,527	616,092	566,458	(49,634)
Benefits	298,018	524,784	480,049	(44,735)
Supplies	43,880	34,403	34,403	-
Contracted services	71,213	80,314	67,486	(12,828)
Capital outlay	-	-	-	-
Total special needs instruction	<u>1,078,638</u>	<u>1,255,593</u>	<u>1,148,396</u>	<u>(107,197)</u>
Program costs:				
Teachers and assistants	49,700	54,575	54,575	-
Benefits	3,802	4,175	4,175	-
Supplies	6,100	5,584	2,564	(3,020)
Other	31,851	55,684	38,417	(17,267)
Total program costs	<u>91,453</u>	<u>120,018</u>	<u>99,731</u>	<u>(20,287)</u>
Total Expenditures	<u>1,913,281</u>	<u>2,753,723</u>	<u>2,481,679</u>	<u>(272,044)</u>
Excess (deficiency) revenues over expenditures	71,641	74,057	66,841	(7,216)
Other Financing Sources (Uses):				
Transfer out	(71,641)	(74,061)	(66,841)	7,220
Total Other Financing Sources (Uses)	<u>(71,641)</u>	<u>(74,061)</u>	<u>(66,841)</u>	<u>7,220</u>
Net change in fund balance				
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

Community Service Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental:				
Learning center grant	\$ -	\$ 100,000	\$ 100,000	\$ -
Charges for services				
Tuition and fees	925,974	925,974	938,669	12,695
Total charges for services	<u>925,974</u>	<u>1,025,974</u>	<u>1,038,669</u>	<u>12,695</u>
Other				
Miscellaneous	225,886	225,886	31,347	(194,539)
Total other	<u>225,886</u>	<u>225,886</u>	<u>31,347</u>	<u>(194,539)</u>
Total Revenues	<u>1,151,860</u>	<u>1,251,860</u>	<u>1,070,016</u>	<u>(181,844)</u>
Expenditures:				
Labor	629,449	764,779	742,537	(22,242)
Fringe benefits	166,798	176,449	189,753	13,304
Supplies	4,000	23,556	21,395	(2,161)
Food	22,000	38,000	45,492	7,492
Other	20,500	29,963	28,621	(1,342)
Total Expenditures	<u>842,747</u>	<u>1,032,747</u>	<u>1,027,798</u>	<u>(4,949)</u>
Excess (deficiency) revenues over expenditures	309,113	219,113	42,218	(176,895)
Other Financing Sources (Uses):	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in Fund Balance	294,113	219,113	42,218	(176,895)
Fund Balance, Beginning of Year	<u>(261,278)</u>	<u>(261,278)</u>	<u>(294,097)</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 32,835</u>	<u>\$ (42,165)</u>	<u>\$ (251,879)</u>	<u>\$ (176,895)</u>

## **FINANCIAL SCHEDULES**

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

Capital Projects Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Impact fees	\$ 485,000	\$ 736,224	\$ 804,875	\$ 68,651
Total intergovernmental revenues				
Other revenue from local sources:				
Interest earnings	1,800	1,800	1,181	(619)
Total Revenues	486,800	738,024	806,056	68,032
Expenditures:				
Current:				
Regular instruction	265,000	186,936	209,358	22,422
Principal on capital lease	-	72,464	72,464	-
Total current expenditures	265,000	259,400	281,822	22,422
Capital outlay:	386,500	1,725,338	1,782,015	56,677
Total Expenditures	651,500	1,984,738	2,063,837	79,099
Excess (deficiency) revenues over expenditures	(164,700)	(1,246,714)	(1,257,781)	(11,067)
Other Financing Sources (Uses)				
Proceeds from capital leases	-	209,564	209,564	-
Transfer from Debt Service Fund	-	1,000,000	1,000,000	-
Total Other Financing Sources (Uses)	-	1,209,564	1,209,564	-
Net Change in Fund Balance	(164,700)	(37,150)	(48,217)	(11,067)
Fund Balance, Beginning of Year	802,109	802,109	967,802	-
Fund Balance, End of Year	\$ 637,409	\$ 764,959	\$ 919,585	\$ 154,626

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance - Actual and Budget (GAAP Basis)

Debt Service Fund

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$ 6,033,589	\$ 6,033,589	\$ 5,997,394	\$ (36,195)
Property tax - prior year	60,000	100,000	124,857	24,857
Property tax - pick-up	28,000	41,000	53,724	12,724
Interest and penalty on delinquent taxes	17,000	17,000	23,438	6,438
Total special school district taxes	<u>6,138,589</u>	<u>6,191,589</u>	<u>6,199,413</u>	<u>7,824</u>
Other revenue from local sources:				
Interest earnings	<u>4,000</u>	<u>4,000</u>	<u>4,535</u>	<u>535</u>
Total Revenues	<u>6,142,589</u>	<u>6,195,589</u>	<u>6,203,948</u>	<u>8,359</u>
Expenditures:				
Other:				
Trustee's commission / bond issue costs	<u>122,772</u>	<u>124,572</u>	<u>180,899</u>	<u>56,327</u>
Debt Service:				
Principal on bonds, notes, and capital leases	4,185,000	4,185,000	4,185,000	-
Interest on bonds, notes, and capital leases	<u>1,526,071</u>	<u>1,554,571</u>	<u>1,495,576</u>	<u>(58,995)</u>
Total Debt Service	<u>5,711,071</u>	<u>5,739,571</u>	<u>5,680,576</u>	<u>(58,995)</u>
Total Expenditures	<u>5,833,843</u>	<u>5,864,143</u>	<u>5,861,475</u>	<u>(2,668)</u>
Excess (deficiency) revenues over expenditures	308,746	331,446	342,473	11,027
Other Financing Sources (Uses)				
Refunding bond payment	-	(10,391,861)	(10,391,861)	-
Bond issuance proceeds	-	9,915,000	9,915,000	-
Bond discount/premiums	-	535,233	535,233	-
Transfer to Capital Projects Fund	-	(1,000,000)	(1,000,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,000,000)</u>	<u>(941,628)</u>	<u>-</u>
Net Change in Fund Balance	308,746	(668,554)	(599,155)	69,399
Fund Balance, Beginning of Year	<u>2,508,040</u>	<u>2,508,040</u>	<u>2,722,347</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 2,816,786</u>	<u>\$ 1,839,486</u>	<u>\$ 2,123,192</u>	<u>\$ 69,399</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Capital Assets Used in the Operation of Governmental Funds

Schedule By Function and Activity

June 30, 2012

Function and Activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Instruction	\$ -	\$ -	\$ -	\$ 5,844,121	\$ -	\$ 5,844,121
Attendance and health	-	-	-	39,622	-	39,622
Transportation	-	-	-	52,437	2,243,766	2,296,203
Plant operation and maintenance	2,244,827	56,805,314	25,292,777	181,570	176,126	84,700,614
Community services	-	-	-	56,630	-	56,630
Food service	-	-	-	1,955,666	-	1,955,666
Administration	-	-	-	719,834	-	719,834
	<u>\$ 2,244,827</u>	<u>\$ 56,805,314</u>	<u>\$ 25,292,777</u>	<u>\$ 8,849,880</u>	<u>\$ 2,419,892</u>	<u>\$ 95,612,690</u>

**Franklin Special School District**

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets By Function and Activity

For the Year Ended June 30, 2012

Function and Activity	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Instruction	\$ 6,023,550	\$ 304,009	\$ 483,438	5,844,121
Attendance and health	39,622	-	-	39,622
Transportation	2,232,717	169,340	105,854	2,296,203
Plant operation and maintenance	83,519,919	1,308,667	127,972	84,700,614
Community services	56,630	-	-	56,630
Food service	1,943,672	16,208	4,214	1,955,666
Administration	<u>745,700</u>	<u>-</u>	<u>25,866</u>	<u>719,834</u>
	<u>\$ 94,561,810</u>	<u>\$ 1,798,224</u>	<u>\$ 747,344</u>	<u>\$ 95,612,690</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Cash and Cash Equivalents

All Funds

June 30, 2012

	<u>Interest Rate</u>	<u>Amount</u>
Major Funds:		
<u>General Fund</u>		
Checking and savings accounts	Various	\$ 767,287
Local government investment pool	Various	<u>6,392,345</u>
Total General Fund		<u>7,159,632</u>
<u>Debt Service Fund</u>		
Checking and savings accounts	Various	34,487
Local government investment pool	Various	<u>2,036,530</u>
		<u>2,071,017</u>
<u>Capital Projects Fund</u>		
Checking and savings accounts	Various	236,976
Local government investment pool	Various	<u>777,513</u>
		<u>1,014,489</u>
Nonmajor Funds:		
<u>Federal Projects Fund</u>		
Checking and savings account		<u>-</u>
<u>Food Service Fund</u>		
Checking and savings accounts		<u>50</u>
<u>Community Service Fund</u>		
Cash		<u>25</u>
Total		<u><u>\$ 10,245,213</u></u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Long-Term Debt Requirements

June 30, 2012

Fiscal Year	1999 Series	2007A Series	2009A Series	2009B Series	2012 Series	Capital Outlay Notes	Total Principal	Interest	Total Principal & Interest
2013	-	360,000	-	750,000	3,190,000	-	4,300,000	1,122,723	5,422,723
2014	-	375,000	-	-	3,945,000	-	4,320,000	1,012,533	5,332,533
2015	1,952,074	390,000	-	-	385,000	-	2,727,074	3,627,659	6,354,733
2016	1,871,720	405,000	-	-	315,000	-	2,591,720	3,787,763	6,379,483
2017	1,754,084	420,000	-	-	325,000	-	2,499,084	3,877,724	6,376,808
2018	1,651,321	440,000	-	-	335,000	-	2,426,321	3,955,087	6,381,408
2019	1,555,589	455,000	-	-	340,000	-	2,350,589	4,027,069	6,377,658
2020	1,464,790	475,000	-	-	350,000	-	2,289,790	4,083,330	6,373,120
2021	-	495,000	325,000	-	360,000	-	1,180,000	670,058	1,850,058
2022	-	515,000	340,000	-	370,000	-	1,225,000	624,601	1,849,601
2023	-	555,000	350,000	-	-	-	905,000	577,370	1,482,370
2024	-	580,000	365,000	-	-	-	945,000	563,020	1,508,020
2025	-	605,000	380,000	-	-	-	985,000	547,873	1,532,873
2026	-	630,000	400,000	-	-	-	1,030,000	453,423	1,483,423
2027	-	660,000	415,000	-	-	-	1,075,000	436,223	1,511,223
2028	-	690,000	435,000	-	-	-	1,125,000	358,301	1,483,301
2029	-	720,000	450,000	-	-	-	1,170,000	338,726	1,508,726
2030	-	755,000	475,000	-	-	-	1,230,000	317,913	1,547,913
2031	-	790,000	495,000	-	-	-	1,285,000	294,163	1,579,163
2032	-	825,000	520,000	-	-	-	1,345,000	269,413	1,614,413
2033	-	865,000	550,000	-	-	-	1,415,000	68,588	1,483,588
<b>Total</b>	<u>\$ 10,249,578</u>	<u>\$ 12,005,000</u>	<u>\$ 5,500,000</u>	<u>\$ 750,000</u>	<u>\$ 9,915,000</u>	<u>\$ -</u>	<u>38,419,578</u>	<u>31,013,560</u>	<u>\$ 69,433,138</u>
Accreted interest	<u>11,247,591</u>						<u>11,247,591</u>	<u>(11,247,591)</u>	
	<u>\$ 21,497,169</u>						<u>\$ 49,667,169</u>	<u>\$ 19,765,969</u>	

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Program Name	Grantor Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures/ Uses
Title I	TN. Dept. of Education	84.010 A		\$ 544,503
Title III, Part A	TN. Dept. of Education	84.365 A		62,454
IDEA Part B	* TN. Dept. of Education	84.027	H027A1000052	1,020,003
IDEA Preschool	* TN. Dept. of Education	84.173	H173A1000095	19,856
IDEA Part B ARRA	* TN. Dept. of Education	84.391A	H391A090052	52,282
IDEA Preschool ARRA	* TN. Dept. of Education	84.392A	H392A090095	5,899
Title II, Part A	TN. Dept. of Education	84.367 A		131,208
Title II, Part D	TN. Dept. of Education	84.318 X		411
Title II, Part D ARRA	TN. Dept. of Education	84.386	S386A090042	530
State Fiscal Stabilization Government Services Fund ARRA	* TN. Dept. of Education	84.397	S397A090043	37,851
First to the Top -ARRA	* TN. Dept. of Education	84.395	S395A100032	125,590
USDA - Lunch	TN. Dept. of Agriculture	10.555		727,906
USDA - Breakfast	TN. Dept. of Agriculture	10.553		221,251
Readiness and Emergency Management for Schools	U.S. Dept. of Education	84.184E		64,177
Federal Education Jobs Program	TN. Dept. of Education	84.410	S410A100043	588,478
<u>Non Cash Federal:</u>				
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.55		<u>103,770</u>
Total Federal Assistance				<u><u>\$ 3,706,169</u></u>

\* Major Program

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Federal and State Financial Assistance Programs

For the Year Ended June 30, 2012

Program Name	Grantor Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Balance July 1, 2011	Receipts	Expenditures/ Uses	Balance June 30, 2012
<u>Federal Program:</u>							
Title I	TN. Dept. of Education	84.010 A		\$ (190,570)	\$ 589,567	\$ 544,503	\$ (145,506)
Title I ARRA	TN Dept. of Education	84.389	S389A090042	(21,264)	21,264	-	-
Title III, Part A	TN. Dept. of Education	84.365 A		(8,143)	69,800	62,454	(797)
Title IV, Part A	TN. Dept. of Education	84.186 A		(81)	81	-	-
Title V, Delinquency Prevention Grant Program	TN. Dept. of Education	16.548		(14,080)	14,080	-	-
Title X, Part C ARRA	TN. Dept. of Education	84.387	S387A090044	(397)	397	-	-
IDEA Part B	* TN. Dept. of Education	84.027	H027A100052	(255,745)	1,045,833	1,020,003	(229,915)
IDEA Preschool	* TN. Dept. of Education	84.173	H173A100095	(3,752)	18,933	19,856	(4,675)
IDEA Part B ARRA	* TN. Dept. of Education	84.391A	H391A090052	(115,089)	167,371	52,282	-
IDEA Preschool ARRA	* TN. Dept. of Education	84.392A	H392A090095	(6,436)	12,335	5,899	-
Title II, Part A	TN. Dept. of Education	84.367 A		(8,476)	124,272	131,208	(15,412)
Title II, Part D	TN. Dept. of Education	84.318 X		(27)	423	411	(15)
Title II, Part D ARRA	TN. Dept. of Education	84.386	S386A090042	(203)	733	530	-
State Fiscal Stabilization Government Services Fund ARRA	* TN. Dept. of Education	84.397	S397A090043	(105,229)	143,080	37,851	-
First to the Top- ARRA	* TN. Dept. of Education	84.395	S395A100032	-	121,690	125,590	(3,900)
USDA - Lunch	TN. Dept. of Agriculture	10.555		(103,387)	729,814	727,906	(101,479)
USDA - Breakfast	TN. Dept. of Agriculture	10.553		(27,565)	217,719	221,251	(31,097)
HUSSC	TN Dept. of Education	10.574		-	-	-	(7,000)
Readiness and Emergency Management for Schools	U.S. Dept. of Education	84.184E		(51)	53,727	64,177	(10,501)
Federal Education Jobs Program	TN. Dept. of Education	84.410	S410A100043	(7,850)	463,751	588,478	(132,577)
<u>Non Cash Federal:</u>							
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.55		-	103,770	103,770	-
Total Federal Assistance				<u>\$ (868,345)</u>	<u>\$ 3,898,640</u>	<u>\$ 3,706,169</u>	<u>\$ (682,874)</u>
<u>State Grants:</u>							
			<u>State Number</u>				
Energy Efficient Schools Initiative Incentive Grant	TN. Dept. of Education	N/A		(11,376)	12,600	-	-
Lottery for Pre K/Pre K Pilot	TN. Dept. of Education	N/A		(111,843)	288,552	275,827	(99,119)
Lottery for Education After School	TN. Dept of Education	N/A		(49,471)	117,991	100,000	(31,480)
Coordinated School Health Grant	TN. Dept of Education	N/A		-	29,154	80,000	(50,846)
Safe Schools Act of 1998	TN. Dept of Education	N/A		-	-	14,300	(14,300)
SSMS	TN. Dept of Education	N/A		-	9,867	9,867	-
BEP	TN. Dept of Education	N/A		-	12,669,000	12,669,000	-
Extended Contracts	TN. Dept. of Education	N/A		-	104,100	77,574	26,526
Career Ladder	TN. Dept. of Education	N/A		(12,504)	227,179	220,833	(6,158)
Total State Assistance				<u>\$ (185,194)</u>	<u>\$ 13,445,843</u>	<u>\$ 13,447,402</u>	<u>\$ (175,376)</u>

Note: Brackets signify a receivable.  
\* Major Program

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Surety Bond and Insurance Coverage

June 30, 2012

Insurance Company	Type of Insurance	Amount	Coverage
The Ohio Casualty Insurance Co.	Public Official Bond	\$ 1,063,735	Director of Schools
Hanover Insurance Group	Crime Coverage:		
\$500 Deductible	Forgery or Alteration	100,000	Annual Aggregate
\$500 Deductible	Employee Theft	100,000	Annual Aggregate
\$500 Deductible	Inside the Premises- Theft of Money and Securities	100,000	Annual Aggregate
Hanover Insurance Group	Property Coverage:		
\$1,000 Deductible	Blanket Building & Contents	135,896,710	Limit All Locations
Per Occurrence	Valuable Papers & Records	100,000	Per Occurrence
	Property Off-Premises	50,000	Per Occurrence
	Outdoor Property	100,000	Per Occurrence
	Accounts Receivable	100,000	Per Occurrence
	Paved Surfaces	100,000	Per Occurrence
	Desktops & Other Stationary Computers	50,000	Per Occurrence
	Laptops & Mobile Computers	5,000	Per Occurrence
\$100,000 Deductible	Earthquake	1,000,000	Per Occurrence & Annual Aggregate
\$500 Deductible	EDP- Hardware & Software \$250,000 and over	5,180,026	Per Occurrence & Annual Aggregate
\$25,000 Deductible	Flood	1,500,000	Per Occurrence & Annual Aggregate
Hanover Insurance Group	General Liability	2,000,000	Aggregate Limit
	Each Occurrence Limit	1,000,000	
	Personal & Advertising Injury Limit	1,000,000	Aggregate Limit
	Fire Damage Limit	500,000	Per Occurrence
	Medical Expense Limit	15,000	Any One Person
	Sexual Misconduct or Sexual Molestation	1,000,000	Per Occurrence & Annual Aggregate
\$1,000 Deductible	Employee Benefits Coverage	1,000,000	Each Employee/\$3,000,000 Aggregate
	Aggregate Defense Expense Amount	300,000	
\$2,500 Deductible	Law Enforcement Professional Liability	1,000,000	Per Occurrence & Annual Aggregate
Hanover Insurance Group	Automobile Liability & Physical	1,000,000	Bodily Injury & Property Damage
\$500 Comprehensive Deductible	Damage		Liability Combined Per Occurrence
Per Occurrence			
\$1,000 Collision Deductible-	Uninsured Motorist	1,000,000	Per Occurrence for Bodily Injury
Buses			And Property Damage
\$500 Collision Deductible-			
All Others			
\$2,500 Deductible	Errors & Omissions	1,000,000	Per Occurrence & Annual Aggregate
Key Risk Insurance	Workers' Compensation:		
	Bodily Injury by Accident	\$ 1,000,000	Each Accident
	Bodily Injury by Disease	1,000,000	Each Employee & Annual Aggregate

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Principal Officials

June 30, 2012

<u>Name</u>	<u>Title</u>	
Sherry Badger	Chairman, Board of Education	*
Tim Stillings	Vice-Chairman, Board of Education	*
Robert Blair	Treasurer, Board of Education	*
Melanie Hembree	Secretary, Board of Education	*
Kent McNish	Member, Board of Education	*
Robin Newman	Member, Board of Education	*
David L. Snowden, Ph.D.	Director of Schools	**

\* Elected at-Large

\*\* Appointed

## **OTHER REPORTS**

**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**

Members of the Board of Education and  
The Director of Schools  
Franklin Special School District  
Franklin, Tennessee

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Special School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2012. 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.

**Internal Control over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management, district board members, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Randall Matlock & Associates, P.C." in a cursive script.

October 19, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

Members of the Board of Education and  
the Director of Schools  
Franklin Special School District  
Franklin, Tennessee

**Compliance**

We have audited Franklin Special School District's (the District's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2012.

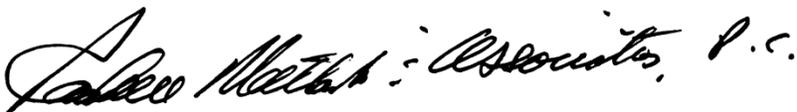
## Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the district board members, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 19, 2012

**FRANKLIN SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**I. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

*Federal Awards*

Type of auditor's report issued on compliance for major programs:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

- CFDA # 84.027      IDEA Part B
- CFDA # 84.173      IDEA Preschool
- CFDA # 84.391A    IDEA Part B ARRA
- CFDA # 84.392A    IDEA Preschool ARRA
- CFDA # 84.397      State Fiscal Stabilization Government Services Fund-ARRA
- CFDA # 84.395      First To The Top ARRA

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**FRANKLIN SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**II. Financial Statement Findings – Required to be reported in Accordance With Government Auditing Standards.**

No matters were reported.

**III. Federal Award Findings – Required to be reported in Accordance With Section 510(a) of Circular A-133.**

No matters were reported.