

**FRANKLIN SPECIAL SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2013**

**Matlock Clements**  

---

**Certified Public Accountants**

# FRANKLIN SPECIAL SCHOOL DISTRICT

## TABLE OF CONTENTS

### Financial Section

Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-16
Basic Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Position	18
Statement of Revenues, Expenses and Changes in Net Position	19
Fund Financial Statements:	
Balance Sheet - Governmental Funds	20
Reconciliation of Balance Sheet to Statement of Net Position of Governmental Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Revenues, Expenses and Changes in Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balance - Actual and Budget (GAAP Basis) - General Fund	24-26
Notes to Financial Statements	27-44
Required Supplementary Information:	
Pension and OPEB Plan - Schedule of Funding Progress	46

---

### Combining and Individual Nonmajor Fund Statements and Schedules

Description of Nonmajor Governmental Funds	48
Combining Balance Sheet - Nonmajor Governmental Funds	49
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	50
Schedule of Revenues, Expenditures and Changes in Fund Balance Balance - Actual and Budget (GAAP Basis) - Nonmajor Governmental Funds:	
Food Service Fund	51
Federal Projects Fund	52
Community Service Fund	53

---

### Financial Schedules

Schedule of Revenues, Expenditures and Changes in Fund Balance - Actual and Budget (GAAP Basis):	
Capital Projects Fund	55
Debt Service Fund	56

# FRANKLIN SPECIAL SCHOOL DISTRICT

## TABLE OF CONTENTS

### Financial Schedules - (Continued)

Capital Assets Used in the Operation of the Governmental Funds:	
Schedule By Function and Activity	57
Schedule of Changes by Function and Activity	58
Schedule of Cash and Cash Equivalents - All Funds	59
Schedule of Long-Term Debt Requirements	60
Schedule of Expenditures of Federal Awards	61
Schedule of Federal and State Financial Assistance	62
Schedule of Surety Bond and Insurance Coverage	63
Schedule of Principal Officials	64

---

### 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 <i>Government Auditing Standards</i>	66-67
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i>	68-69
Schedule of Findings and Questioned Costs	70

## **FINANCIAL SECTION**

**THIS PAGE INTENTIONALLY LEFT BLANK**

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Special School District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the 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, 2013, and the respective changes in financial position and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-16 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund statements and schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, 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* in considering the District's internal control over financial reporting and compliance.



Matlock Clements, P.C.  
Murfreesboro, Tennessee  
October 31, 2013

# 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, 2013.

### *FINANCIAL HIGHLIGHTS*

- The net position for the fiscal year was approximately \$14 million while the change in net position increased \$667,715.
- Outlays for new capital assets totaled approximately \$517,944 and consisted of technology and maintenance equipment, various repairs and improvements and two new school buses.
- Due to the GASB 65 implementation, there was a prior period adjustment to the beginning net position for the Bond Issuance Cost that had not been expensed in the prior year.

### *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 Position and Statement of Revenues, Expenses and Changes in Net Position*  
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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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, liabilities and deferred inflows of resources 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 position and changes in the net position and begin on page 18. The change in net position 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.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

### 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 20 and provide detailed information about the District's most significant or "major" funds – not the District as a whole. Some funds 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 Position and the Statement of Revenues, Expenses and Changes in Net Position) 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 Position*

As noted earlier, net position may serve over time as a useful indicator of a school district's financial position. In the case of the District, the net position was approximately 14 million at the close of the fiscal year.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

A schedule of the District's net position at June 30, 2012 (for comparison) and 2013 follows:

	<i>Governmental</i>	
	<i>Activities</i>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 40,953,287	\$ 40,074,836
Capital assets, net	<u>58,772,905</u>	<u>61,211,353</u>
<i>Total assets</i>	<u>99,726,192</u>	<u>85,257,398</u>
Long-term liabilities	46,796,306	50,208,278
Other liabilities	<u>10,271,483</u>	<u>9,918,871</u>
<i>Total liabilities</i>	<u>85,739,744</u>	<u>71,911,478</u>
Deferred property taxes	28,649,398	27,597,100
Other Deferred Inflows	45,366	69,105
<i>Total Deferred Inflows of resources</i>	<u>28,694,764</u>	<u>27,666,205</u>
<i>Net assets:</i>		
Invested in capital assets, net of related debt	24,304,093	22,111,927
Restricted	3,349,886	3,359,224
Unrestricted	<u>(13,690,340)</u>	<u>(11,978,316)</u>
<i>Total net assets</i>	<u>\$ 13,986,448</u>	<u>\$ 13,345,920</u>
Prior Period Adjustment		(196,911)

Over 100% of the District's net position relates to the net investment in capital assets. 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 \$12.5 million in accreted interest for capital appreciation bonds which are not included in debt for the calculation of the net investment in capital assets. The District uses capital assets to provide services to its roughly 3,866 public school students; consequently, these assets are not available for future spending. Although the District's net investment in 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 position (approximately \$3.3 million or 24%) represents resources subject to external restrictions on how they may be used. And as can be seen from the schedule above, the unrestricted net assets result in a deficit.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

### *Changes in Net Position*

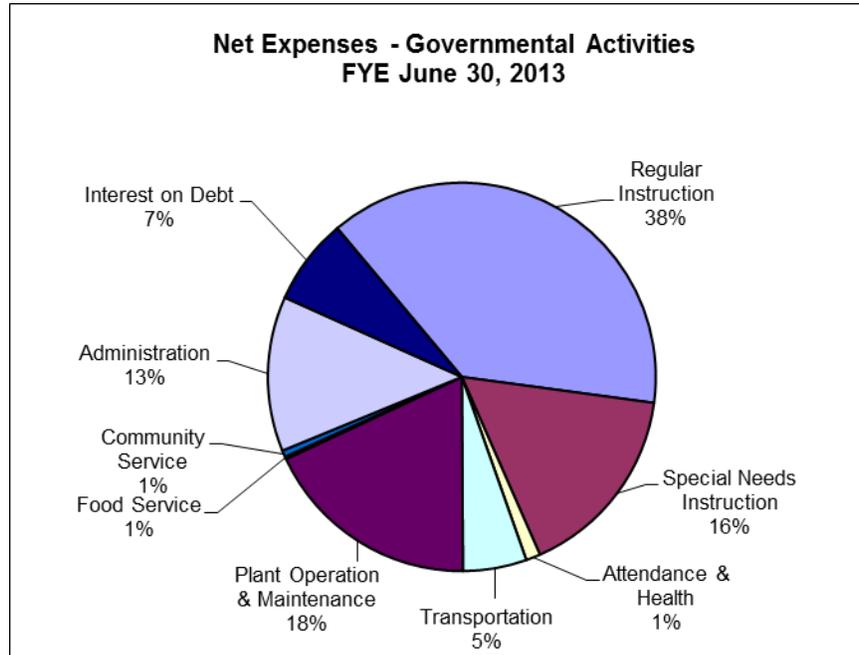
The District's activities are categorized as "governmental" activities. Net position of the District's governmental activities increased by \$667,715. The increase in net position resulted primarily from total general revenues exceeding the total net expenditures of the primary governmental activities.

The Statement of Revenues, Expenses and Changes in Net Position shows the cost of program services and the charges for services and grants offsetting those services. The following table 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.

<b><i>Change in Net Position - Governmental Activities</i></b>				
	<b><i>Total Cost</i></b>	<b><i>Less: Program</i></b>	<b><i>Net Cost</i></b>	<b><i>Net Cost</i></b>
<b><i>of Services</i></b>	<b><i>of Services</i></b>	<b><i>Revenues</i></b>	<b><i>of Services</i></b>	<b><i>of Services</i></b>
<b><i>Program Expenses:</i></b>	<b>2013</b>			<b>2012</b>
Instruction:				
Regular	\$ 28,746,474	\$ (16,431,452)	\$ 12,315,022	\$ 11,951,215
Special needs	6,274,918	(1,038,493)	5,236,425	5,099,319
Support Services:				
Attendance and health	387,414	-	387,414	367,411
Transportation	1,708,286	-	1,708,286	1,655,882
Plant operations and maintenance	5,840,670	-	5,840,670	5,782,195
Food service	2,072,206	(2,007,101)	65,105	130,159
Community service	1,212,474	(1,033,827)	178,647	90,038
Administration	4,153,693		4,153,693	4,060,633
Interest on debt	2,314,197	-	2,314,197	3,049,701
Total	\$ 52,710,332	\$ (20,510,873)	32,199,459	32,186,553
<b><i>Less: General Revenues</i></b>			32,867,174	33,161,189
<b><i>Change in Net Position</i></b>			\$ 667,715	\$ 974,636
<b><i>Prior Period Adjustment</i></b>				\$ (196,911)

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

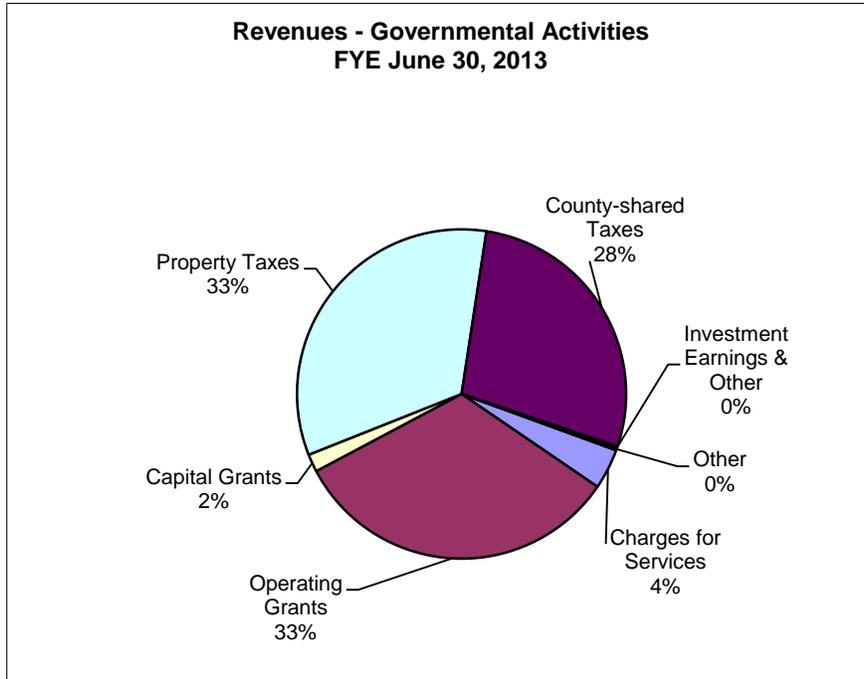


The net cost of regular instruction and plant operations and maintenance and special needs instruction represent the largest components of the District's governmental activities, 56% and 16%, respectively. The District relies on general revenues, including tax revenue and unrestricted State BEP funds, to support the net cost of its governmental activities. As the table below indicates, \$32.9 million of general revenues were realized to support \$32.2 million of governmental activities.

	<u>Governmental 2013 Activities</u>	<u>%</u>	<u>Governmental 2012 Activities</u>	<u>%</u>
<b>Program Revenues:</b>				
Charges for services	\$ 2,121,463	4.0%	\$ 2,034,881	3.8%
Operating grants	17,455,210	32.7%	17,403,118	32.6%
Capital grants	934,200	1.8%	804,875	1.5%
	<u>20,510,873</u>	<u>38.4%</u>	<u>20,242,874</u>	<u>37.9%</u>
<b>General Revenues:</b>				
Property taxes	17,849,940	33.4%	18,140,797	34.0%
County-shared taxes	14,805,526	27.7%	14,711,715	27.5%
Investment earnings	79,344	0.1%	58,630	0.1%
Other	132,364	0.2%	250,047	0.5%
	<u>32,867,174</u>	<u>61.6%</u>	<u>33,161,189</u>	<u>62.1%</u>
<b>Total Revenues</b>	<u>\$ 53,378,047</u>	<u>100.0%</u>	<u>\$ 53,404,063</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 33 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 20) reported a combined fund balance of \$6.1 million, a decrease of \$84,482 from the prior year. The schedule on the next page indicates the fund balance and the total change in fund balance by fund as of June 30, 2013.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Management's Discussion and Analysis

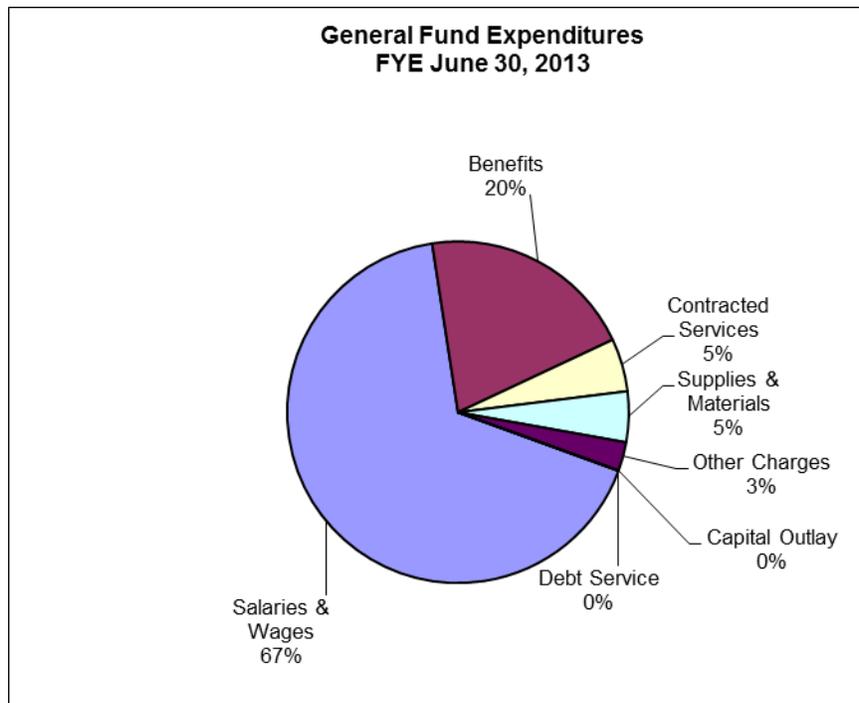
	<u>Balance,</u> <u>June 30, 2013</u>	<u>Balance,</u> <u>June 30, 2012</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 3,318,512	\$ 3,552,036	\$ (233,524)
Debt Service	2,231,884	2,123,192	108,692
Nonmajor Funds:			
Food Service	(195,221)	(174,776)	(20,445)
Federal Projects	-	-	-
Community Service	(288,759)	(251,879)	(36,880)
Capital Outlay	1,017,260	919,585	97,675
<b>Total</b>	<u>\$ 6,083,676</u>	<u>\$ 6,168,158</u>	<u>\$ (84,482)</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 \$3,318,512. The unreserved fund balance of \$3.3 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 7.8% of total General Fund expenditures.

Expenditures exceeded revenue for the fiscal year, which resulted in a decrease to the fund balance of \$233,524.

The District is a service entity and as such is labor intensive. As the graph below 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**

	<u>2013</u>	<u>2012</u>
Salaries & Wages	\$ 28,035,586	\$ 27,072,237
Benefits	8,554,618	8,274,043
Contracted Services	2,095,236	1,856,869
Supplies & Materials	2,004,817	1,954,989
Other Charges	1,142,007	1,221,461
Capital Outlay	-	16,208
Debt Service	578	1,194
Total	<u>\$ 41,832,842</u>	<u>\$ 40,397,001</u>

*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 increased \$108,692 due to a decrease in expenditures that were anticipated and reflected in the budget. 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.

The District operates a food service program in each of its seven schools. The Food Service Fund's fund balance decreased \$20,445 due to increased costs for food and supplies. 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 decreased \$36,880 due primarily to increased labor costs.

The fund balance of the Capital Outlay Fund increased \$97,675 due to better than anticipated revenue collections. 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 \$42.8 million and the estimated revenues and transfers totaled \$41.4 million. Final budgeted expenditures in the General Fund were \$43.2 million. Amendments related primarily to grants.

## **FRANKLIN SPECIAL SCHOOL DISTRICT**

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

During the year, however, the District realized slightly better than expected revenue collections and made an effort to spend conservatively. The original budget was amended accordingly. Consequently, expenditures were less than budgetary estimates by \$1,401,906 at year-end, and actual revenues were more than budgetary estimates by \$108,860. Subsequently, total expenditures exceeded revenues and transfers for the fiscal year, decreasing the fund balance by \$233,524.

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

#### **Capital Assets**

The District has \$58.8 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.

Acquisitions consisting of technology and maintenance equipment, two buses, various repairs and improvements totaled \$517,944. Detailed information regarding capital asset activity is included in the notes to financial statements (see Note 3).

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Management’s Discussion and Analysis**

**Capital Assets (continued)**

The District’s capital assets at June 30, 2013 as summarized by location follow:

<u>Location</u>	<u>Owned</u>		<u>Accumulated</u>		<u>2013</u>	<u>2012</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	\$ 5,395,607	\$ 5,935,674	\$ 6,196,004	
Johnson Elementary	13.7	7,421,211	2,396,509	5,024,702	5,115,554	
Liberty Elementary	37.0	8,640,195	4,025,947	4,614,248	4,776,245	
Moore Elementary	20.0	11,162,902	4,152,135	7,010,767	7,343,655	
Freedom Intermediate	25.0	18,700,157	5,345,472	13,354,685	14,216,162	
Freedom Middle	37.4	12,254,189	5,539,038	6,715,151	6,880,413	
Poplar Grove	37.3	21,233,217	6,617,522	14,615,695	15,096,368	
Central Office	2.6	617,254	366,241	251,013	251,530	
Central Office Annex	6.6	1,549,231	985,033	564,198	610,824	
Transportation	-	2,359,611	1,723,917	635,694	689,464	
Maintenance/Landscaping	-	297,626	246,548	51,078	35,134	
<b>Total</b>	<b>196.3</b>	<b>\$ 95,566,874</b>	<b>\$ 36,793,969</b>	<b>58,772,905</b>	<b>61,211,353</b>	
Less: Outstanding Debt				(34,468,812)	(39,099,426)	
Plus: Bond Proceeds (net of contracts payable)				-	-	
<b>Net Investment in Capital Assets</b>				<b>\$ 24,304,093</b>	<b>\$ 22,111,927</b>	

**Long-Term Debt**

At June 30, 2013, the District had general obligation bonds outstanding of \$46,617,809, a capital lease of \$69,723, a liability for compensated absences of \$405,435 and a net OPEB obligation of \$3,909,826. This is as compared to the June 30, 2012, balances of \$49,667,169 for general obligation bonds, a capital lease of \$137,100, a liability for compensated absences of \$395,836 and a net OPEB obligation of \$3,940,748. 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 will be a significant increase in revenue from property taxes due to normal growth in addition to the move of three cents from the debt service tax rate to the general purpose tax rate and a 2.65 cents tax increase.

All of these factors were considered in preparing the District's budget for the 2013-2014 fiscal year. Total General Fund appropriations approved by the District's Board of Education total \$44.5 million for the 2013-2014 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 Position**

**June 30, 2013**

	Primary Government Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 10,409,499
Receivables (net of allowance of uncollectibles):	
Taxes	13,779,524
Due from other governments	16,703,336
Accounts receivable	15,963
Inventories	44,965
Non depreciable capital assets	2,244,827
Depreciable capital assets net accumulated depreciation	56,528,078
Total Assets	99,726,192
<u>Liabilities</u>	
Accounts payable	121,356
Accrued payroll and other liabilities	5,597,075
Retainage payable	30,869
Accrued interest	84,598
Long-term liabilities due within one year	4,437,585
Long-term liabilities due in more than one year	46,796,306
Total Liabilities	57,067,789
<u>Deferred inflows of resources</u>	
Deferred inflows-property taxes	28,649,398
Deferred inflows- cafeteria charges and tuition	45,366
Total Deferred Inflows of Resources	28,694,764
<u>Net Position</u>	
Net investment in capital assets	24,200,181
Restricted for:	
Special programs	52,329
Debt service	2,231,884
Capital projects	1,065,673
Unrestricted	(13,586,428)
Total Net Position	\$ 13,963,639

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Statement of Revenues, Expenses and Changes in Net Position**

**For the Year Ended June 30, 2013**

	<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 Position
<b>Functions / Programs:</b>					<u>Primary Governmental Activities</u>
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Regular instruction	\$ 28,746,474	\$ 331,525	\$ 15,165,727	\$ 934,200	\$ (12,315,022)
Special needs instruction	6,274,918	-	1,038,493	-	(5,236,425)
Attendance and health	387,414	-	-	-	(387,414)
Transportation	1,708,286	-	-	-	(1,708,286)
Plant operation and maintenance	5,840,670	-	-	-	(5,840,670)
Food service	2,072,206	856,111	1,150,990	-	(65,105)
Community service	1,212,474	933,827	100,000	-	(178,647)
Administration	4,153,693	-	-	-	(4,153,693)
Interest of debt	2,314,197	-	-	-	(2,314,197)
<b>Total Governmental Activities</b>	<u>\$ 52,710,332</u>	<u>\$ 2,121,463</u>	<u>\$ 17,455,210</u>	<u>\$ 934,200</u>	<u>\$ (32,199,459)</u>
<b>General Revenues:</b>					
Property taxes					17,849,940
County shared taxes					14,805,526
Unrestricted investment earnings and rental income					79,344
Other					132,364
					<u>32,867,174</u>
					Change in net position 667,715
					Net position - beginning of year <u>13,492,835</u>
					Prior period adjustment (Note 15) (196,911)
					Net position - end of year <u>\$ 13,963,639</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

**Balance Sheet  
Governmental Funds**

**June 30, 2013**

<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	\$ 7,226,311	\$ 987,340	\$ 2,195,573	\$ 275	\$ 10,409,499
Taxes receivable	13,779,524	-	-	-	13,779,524
Due from other governments	10,831,307	78,333	5,156,327	637,369	16,703,336
Receivables	15,904	-	-	59	15,963
Inventory	-	-	-	44,965	44,965
Due from other funds	710,213	-	-	-	710,213
<b>Total Assets</b>	<b>\$ 32,563,259</b>	<b>\$ 1,065,673</b>	<b>\$ 7,351,900</b>	<b>\$ 682,668</b>	<b>\$ 41,663,500</b>
<u>Liabilities</u>					
Accounts payable	103,812	17,544	-	-	121,356
Accrued liabilities	5,186,006	-	-	411,069	5,597,075
Retainage payable	-	30,869	-	-	30,869
Due to other funds	-	-	-	710,213	710,213
<b>Total Liabilities</b>	<b>5,289,818</b>	<b>48,413</b>	<b>-</b>	<b>1,121,282</b>	<b>6,459,513</b>
<u>Deferred inflows of resources</u>					
Deferred inflows- property taxes	23,954,929	-	5,120,016	-	29,074,945
Deferred inflows-cafeteria	-	-	-	20,109	20,109
Deferred inflows-tuition	-	-	-	25,257	25,257
<b>Total Deferred Inflows of Resources</b>	<b>23,954,929</b>	<b>-</b>	<b>5,120,016</b>	<b>45,366</b>	<b>29,120,311</b>
<u>Fund Balances</u>					
Nonspendable:					
Inventory	-	-	-	44,965	44,965
Restricted:					
Restricted for Extended Contract	16,546	-	-	-	16,546
Committed:					
Committed for Young Scholars	35,783	-	-	-	35,783
Committed for Debt Service	-	-	2,231,884	-	2,231,884
Committed for Capital Projects	-	1,017,260	-	-	1,017,260
Unassigned	3,266,183	-	-	(528,945)	2,737,238
<b>Total Fund Balances</b>	<b>3,318,512</b>	<b>1,017,260</b>	<b>2,231,884</b>	<b>(483,980)</b>	<b>6,083,676</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 32,563,259</b>	<b>\$ 1,065,673</b>	<b>\$ 7,351,900</b>	<b>\$ 682,668</b>	<b>\$ 41,663,500</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

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

**June, 30 2013**

<b>Amounts reported for fund balance - total governmental funds</b>		\$ 6,083,676
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		58,772,905
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows in the funds.		
County collected and shared taxes		425,547
In the statement of revenues, expenses and changes in net position, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(84,598)
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 position.		(231,098)
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	(46,617,809)	
Capital lease payable	(69,723)	
Other post employment benefits	(3,909,826)	
Compensated absences	(405,435)	(51,002,793)
<b>Net position of governmental activities</b>		<b>\$ 13,963,639</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2013**

<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	\$ 12,216,954	\$ -	\$ 5,628,064	\$ -	\$ 17,845,018
Intergovernmental	28,803,960	934,200	-	3,462,336	33,200,496
Charges for services	331,525	-	-	1,685,027	2,016,552
Uses of money and property	72,657	2,644	4,043	-	79,344
Other	104,807	-	13,278	132,370	250,455
Total Revenue	<u>41,529,903</u>	<u>936,844</u>	<u>5,645,385</u>	<u>5,279,733</u>	<u>53,391,865</u>
 <u>Expenditures</u>					
Current:					
Regular instruction	27,254,860	248,760	-	1,084,245	28,587,865
Special needs instruction	5,332,615	-	-	944,478	6,277,093
Attendance and health	387,267	-	-	-	387,267
Transportation	1,481,894	-	-	-	1,481,894
Plant operation and maintenance	3,329,310	-	-	-	3,329,310
Food service	-	-	-	2,033,720	2,033,720
Community service	-	-	-	1,211,374	1,211,374
Administration	4,046,318	-	112,400	-	4,158,718
Debt service	578	72,465	5,424,293	-	5,497,336
Capital outlay	-	517,944	-	-	517,944
Total Expenditures	<u>41,832,842</u>	<u>839,169</u>	<u>5,536,693</u>	<u>5,273,817</u>	<u>53,482,521</u>
Excess (deficiency) revenues over expenditures	<u>(302,939)</u>	<u>97,675</u>	<u>108,692</u>	<u>5,916</u>	<u>(90,656)</u>
 <u>Other Financing Sources (Uses)</u>					
Transfer from other funds	69,415	-	-	-	69,415
Transfer to other funds	-	-	-	(69,415)	(69,415)
Total Other Financing Sources (Uses)	<u>69,415</u>	<u>-</u>	<u>-</u>	<u>(69,415)</u>	<u>-</u>
Net Change in Fund Balance	(233,524)	97,675	108,692	(63,499)	(90,656)
Fund Balance, Beginning of Year	3,552,036	919,585	2,123,192	(426,655)	6,168,158
Change in inventory reserve	-	-	-	6,174	6,174
Fund Balance, End of Year	<u>\$ 3,318,512</u>	<u>\$ 1,017,260</u>	<u>\$ 2,231,884</u>	<u>\$ (483,980)</u>	<u>\$ 6,083,676</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2013**

**Amounts reported for net change in fund balance - total governmental funds** \$ (90,656)

**Amounts reported for governmental activities in the statement of revenues, expenses and changes in net position are different because:**

Governmental funds report capital outlays as expenditures. However, in the statement of revenues, expenses and changes in net position 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	517,944	
Depreciation expense	<u>(2,955,324)</u>	(2,437,380)

Loss on disposal of assets not fully depreciated		(971)
--	--	-------

Revenues in the statement of revenues, expenses and changes in net position that do not provide current financial resources are not reported as revenues in the funds.

County collected and shared taxes		(13,914)
-----------------------------------	--	----------

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 position.

Bond Premium	57,107	
Capital lease payments	67,277	
Bond and note payments	<u>4,300,000</u>	4,424,384

Interest is accrued on the outstanding bonds in the statement of revenues, expenses and changes in net position, whereas in the governmental funds, an interest expenditure is reported when due.

9,395

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	6,174	
Compensated absences	(9,600)	
Other post employment benefits	30,923	
Accreted interest	<u>(1,250,640)</u>	<u>(1,223,143)</u>

Change in net position of governmental activities		<u>\$ 667,715</u>
---	--	-------------------

**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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$ 11,873,092	\$ 11,873,092	\$ 12,008,646	\$ 135,554
Property tax - prior year	230,000	230,000	66,060	(163,940)
Property tax - pickup	75,000	75,000	113,604	38,604
Interest and penalty on delinquent taxes	40,000	40,000	28,644	(11,356)
Total special school district taxes	<u>12,218,092</u>	<u>12,218,092</u>	<u>12,216,954</u>	<u>(1,138)</u>
Intergovernmental revenue				
County Revenue:				
Property tax - current year	10,447,933	10,447,933	10,429,546	(18,387)
Property tax - prior year	60,000	60,000	81,761	21,761
Taxes - other	67,000	67,000	75,838	8,838
In lieu of tax payments	15,000	15,000	14,785	(215)
Interest and penalty on delinquent taxes	30,000	30,000	27,301	(2,699)
Local sales tax	4,250,000	4,250,000	4,181,855	(68,145)
Total county revenue	<u>14,869,933</u>	<u>14,869,933</u>	<u>14,811,086</u>	<u>(58,847)</u>
State Funds:				
Basic education program	13,002,000	13,002,000	13,248,639	246,639
Career ladder	230,000	230,000	190,221	(39,779)
Career ladder extended contract	121,000	121,000	65,900	(55,100)
Other state funds	365,164	382,806	382,501	(305)
Total state funds	<u>13,718,164</u>	<u>13,735,806</u>	<u>13,887,261</u>	<u>151,455</u>
Federal Funds:				
Education of handicapped	-	105,613	105,613	-
Total federal funds received	<u>-</u>	<u>105,613</u>	<u>105,613</u>	<u>-</u>
Total Intergovernmental revenue	<u>28,588,097</u>	<u>28,711,352</u>	<u>28,803,960</u>	<u>92,608</u>
Charges for services				
Tuition - out-of-district students	35,000	35,000	40,606	5,606
Tuition summer school	265,000	265,000	250,600	(14,400)
Other Charges	28,000	28,000	40,319	12,319
Total charges for services	<u>328,000</u>	<u>328,000</u>	<u>331,525</u>	<u>3,525</u>
Other Revenue from Local Sources:				
Interest earnings	8,000	8,000	8,270	270
Facility rentals	60,000	60,000	64,387	4,387
Other	85,000	95,599	104,807	9,208
Total other revenues	<u>153,000</u>	<u>163,599</u>	<u>177,464</u>	<u>13,865</u>
Total Revenues	<u>\$ 41,287,189</u>	<u>\$ 41,421,043</u>	<u>\$ 41,529,903</u>	<u>\$ 108,860</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, 2013

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
<b>Expenditures:</b>				
<b>Regular Instruction:</b>				
Principals and assistant principals	\$ 1,528,296	\$ 1,528,296	\$ 1,489,076	\$ (39,220)
Supervisors	403,255	407,593	409,178	1,585
Teachers	15,108,819	15,060,249	14,967,251	(92,998)
Substitute teachers	300,000	301,063	316,361	15,298
Guidance personnel	690,568	690,568	676,985	(13,583)
Library personnel	461,481	461,481	444,217	(17,264)
Other salaries and wages	1,940,599	1,983,362	1,885,982	(97,380)
Career ladder program	196,000	196,000	133,202	(62,798)
Benefits	6,212,689	6,311,113	6,071,849	(239,264)
Contracted services and consultants	222,850	219,950	220,952	1,002
Travel - instructional personnel	2,800	2,800	1,446	(1,354)
Instructional materials and supplies	569,974	581,205	581,153	(52)
Other	54,297	56,389	57,208	819
<b>Total regular instruction</b>	<b>27,691,628</b>	<b>27,800,069</b>	<b>27,254,860</b>	<b>(545,209)</b>
<b>Special Needs Instruction</b>				
Supervisor	76,148	76,148	72,797	(3,351)
Teachers	2,620,073	2,620,073	2,485,914	(134,159)
Psychological personnel	592,670	654,983	568,968	(86,015)
Substitute teachers	50,000	50,000	60,062	10,062
Other personnel	692,488	630,175	609,483	(20,692)
Career ladder	29,200	29,200	19,722	(9,478)
Contracts	539,000	344,000	299,612	(44,388)
Instruction materials and supplies	31,000	36,042	28,033	(8,009)
Benefits	1,330,380	1,330,380	1,179,174	(151,206)
Other	11,100	11,671	8,850	(2,821)
<b>Total special needs instruction</b>	<b>5,972,059</b>	<b>5,782,672</b>	<b>5,332,615</b>	<b>(450,057)</b>
<b>Attendance and Health:</b>				
Supervisor and other wages	269,817	269,817	265,788	(4,029)
Career ladder program	13,000	13,000	12,000	(1,000)
Benefits	114,183	114,183	93,836	(20,347)
Supplies and materials	6,900	6,900	5,865	(1,035)
Other	4,480	11,152	9,778	(1,374)
<b>Total attendance and health</b>	<b>408,380</b>	<b>415,052</b>	<b>387,267</b>	<b>(27,785)</b>
<b>Transportation:</b>				
Bus drivers and supervisors	809,028	809,028	815,926	6,898
Other salaries and wages	84,409	84,409	63,643	(20,766)
Benefits	365,424	365,424	344,239	(21,185)
Repairs and maintenance	103,500	99,000	81,046	(17,954)
Contracted services	5,036	5,036	5,921	885
Fuel	158,450	158,450	133,281	(25,169)
Insurance	20,000	20,000	19,050	(950)
Rent	5,200	5,200	2,929	(2,271)
Other	11,340	15,840	15,859	19
<b>Total transportation</b>	<b>1,562,387</b>	<b>1,562,387</b>	<b>1,481,894</b>	<b>(80,493)</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, 2013

Expenditures, Continued:	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Plant Operation and Maintenance:				
Supervisors	66,677	66,677	66,667	(10)
Custodial services	1,015,506	1,015,506	1,008,391	(7,115)
Other salaries and wages	346,379	346,379	288,583	(57,796)
Benefits	542,007	542,007	511,014	(30,993)
Repairs and maintenance	94,980	137,379	146,798	9,419
Other contracted services	114,000	114,000	94,195	(19,805)
Utilities	982,000	982,000	903,660	(78,340)
Insurance	89,500	89,500	80,907	(8,593)
Other materials and supplies	201,000	224,000	228,039	4,039
Other	2,750	2,750	1,056	(1,694)
Total plant operation and maintenance	3,454,799	3,520,198	3,329,310	(190,888)
Administration:				
Director of schools	176,269	176,269	176,902	633
Accounting	401,415	401,415	400,255	(1,160)
Other salaries and wages	790,868	790,868	798,233	7,365
Benefits	379,260	354,506	354,506	-
Travel	5,050	7,197	4,073	(3,124)
Communications	133,000	133,577	130,991	(2,586)
Board services	374,000	374,000	316,654	(57,346)
Trustee commission	488,000	488,000	496,793	8,793
Insurance	242,000	242,000	236,461	(5,539)
Professional services	39,000	39,000	35,613	(3,387)
Other contracted services	318,597	770,703	755,006	(15,697)
Materials and supplies	89,700	111,510	110,816	(694)
Data processing	18,500	18,500	13,970	(4,530)
Other	236,908	238,825	216,045	(22,780)
Debt service	8,000	8,000	578	(7,422)
Total administration	3,700,567	4,154,370	4,046,896	(107,474)
Total Expenditures	42,789,820	43,234,748	41,832,842	(1,401,906)
Excess revenues over (under) expenditures	(1,502,631)	(1,813,705)	(302,939)	1,510,766
Other Financing Sources (Uses):				
Transfer in	65,000	65,000	69,415	4,415
Total Other Financing Sources (Uses)	65,000	65,000	69,415	4,415
Net change in Fund Balance	(1,437,631)	(1,748,705)	(233,524)	1,515,181
Fund Balance, Beginning of Year	1,151,416	625,587	3,552,036	-
Fund Balance, End of Year	\$ (286,215)	\$ (1,123,118)	\$ 3,318,512	\$ 4,441,630

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Notes to Financial Statements

For the Year Ended June 30, 2013

### **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 position and the statement of revenues, expenses and change in net position) 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 revenues, expenses and change in net position 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, 2013

## **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 recorded as a deferred inflow of resources and recognized as revenue of the period to which they apply. 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, 2013

## **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 that \$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, 2013

**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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has revenue sources from property taxes, cafeteria and tuition charges that qualify for reporting in this category. These amounts are deferred and recognized as an inflow or resources in the period that the amounts become available.

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.

# FRANKLIN SPECIAL SCHOOL DISTRICT

## Notes to Financial Statements

For the Year Ended June 30, 2013

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

#### 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 position.

Bond and note premiums and discounts 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 issuance costs are recognized as an expense in the period incurred.

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 reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 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.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

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

Fund Equity (continued)

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 Position

Net position in the government-wide financial statements is divided into three components, net investment in capital assets, restricted and unrestricted. Net investment in capital assets excludes accreted interest of \$12,498,231 on capital appreciation bonds.

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 a deferred inflow of resources. The District tax rates per \$100 of assessed value are as follows:

	<u>2013</u>	<u>2012</u>
General Fund	\$ .651	.626
Debt Service	.300	.325

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**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 an 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, 2013, there were no amounts exposed to custodial credit risk.

Investments

At June 30, 2013 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	\$9,184,758	N/A	N/A
Less Liquid Investments (Cash equivalents)	<u>(9,184,758)</u>		
Total Investments per financial statements	<u>\$ _____</u>		

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.

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.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**3.) Capital Assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

<u>Asset</u>	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</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	25,292,776	188,075	(1,066)	25,479,785
Equipment	8,849,879	141,862	(456,837)	8,534,904
Vehicles	2,419,893	188,007	(105,856)	2,502,044
Total	<u>\$ 95,612,689</u>	<u>\$517,944</u>	<u>\$(563,759)</u>	<u>\$ 95,566,874</u>
<u>Accumulated Depreciation</u>				
	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Buildings	\$ 20,431,942	\$1,131,588	\$ -	\$ 21,563,530
Improvements	4,793,389	1,356,288	-	6,149,677
Equipment	7,457,218	236,131	(456,837)	7,236,512
Vehicles	1,718,787	231,317	(105,854)	1,844,250
Total	<u>\$ 34,401,336</u>	<u>\$2,955,324</u>	<u>\$(562,691)</u>	<u>\$ 36,793,969</u>
Governmental Activities Net Capital Assets	<u>\$ 61,211,353</u>			<u>\$ 58,772,905</u>

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

Instruction	\$ 164,639
Attendance and Health	72
Transportation	223,032
Plant Operation and Maintenance	2,512,646
Food Service	35,510
Community Service	110
Administration	<u>19,315</u>
Total	<u>\$2,955,324</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**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, 2013:

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Accreted Interest</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Bonds	\$ 49,667,169	\$ -	\$1,250,640	\$4,300,000	\$46,617,809	\$4,320,000
Capital Lease Obligation	137,000	-	-	67,277	69,723	69,723
Compensated Absences	395,835	9,600	-	-	405,435	47,862
Total	<u>50,200,004</u>	<u>\$9,600</u>	<u>\$1,250,640</u>	<u>\$4,367,277</u>	47,092,967	<u>\$4,437,585</u>
 Discounts/Premiums	 288,205				 231,098	
	<u>50,488,209</u>				<u>47,324,065</u>	
 Net OPEB obligation	 3,940,748				 3,909,826	
	<u>\$54,428,957</u>				<u>\$51,233,891</u>	

Long term debt payable at June 30, 2013 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%	\$22,747,809
2007 Series A limited tax school bonds issued August 2007 With interest ranging 4% to 4.75%	11,645,000
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>6,725,000</u>
	<u>\$46,617,809</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

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

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2013 including interest payments as follows:

<u>Year</u>	<u>Bonds</u>	<u>Notes</u>	<u>Interest</u>	<u>Total</u>
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	2,426,321	-	3,955,087	6,381,408
2019-2023	7,950,379	-	9,982,428	17,932,807
2024-2028	5,160,000	-	2,358,840	7,518,840
2029-2033	6,445,000	-	1,288,803	7,733,803
	<u>\$ 34,119,578</u>	<u>\$ -</u>	<u>\$29,890,837</u>	<u>\$64,010,415</u>
Accreted Interest			<u>(12,498,231)</u>	
	<u>\$ 46,617,809</u>		<u>\$17,392,606</u>	

The District entered into a lease for the purchase of computer assets. The lease requires repayment terms and has been accounted for as financing transactions. The District will obtain title to the leased capital assets by satisfying the minimum lease payments. The assets recorded under a capital lease are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$209,564
Less accumulated depreciation	<u>(76,846)</u>
Total	<u>\$132,718</u>

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

Year Ending June 30,	
2014	<u>\$69,723</u>
Total	<u>\$69,723</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.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**5.) Receivables and Deferred Inflows of Resources**

A summary of receivables at June 30, 2013 is as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total
Property Taxes	\$ 13,779,524	\$ -	\$ -	\$ -	\$ 13,779,524
Customer and Other	15,904	-	-	59	15,963
Other Governments	10,831,307	78,333	5,156,327	637,369	16,703,336
<b>Total</b>	<b>\$ 24,626,735</b>	<b>\$ 78,333</b>	<b>\$5,156,327</b>	<b>\$637,428</b>	<b>\$30,498,823</b>

Deferred inflows of resources 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 inflow of resources are as follows:

	Government –Wide Statements	Fund Statements
Unlevied Property Taxes (Unavailable)	\$18,466,465	\$18,466,465
Unlevied County Taxes (Unavailable)	10,182,933	10,182,933
County Collected and Shared (Unavailable)	-	425,547
Cafeteria Charges and Tuition (Unearned)	45,366	45,366
<b>Total</b>	<b>\$28,694,764</b>	<b>\$29,120,311</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 if 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, 2013

#### **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, 2013 was 8.88% 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, 2013, 2012, and 2011 were \$1,942,652, \$1,919,491, and \$1,891,655, 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 at the age of 55. 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 percent 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, 2013 was 8.64% 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, 2013

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

Annual Pension Cost

For the year ending June 30, 2013, Franklin Special School District’s annual pension cost of \$600,504 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, 2011 actuarial valuation using the frozen entry age actuarial cost 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, 2011 was 3 years. An actuarial valuation was performed as of July 1, 2011, which established contribution 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>
June 30, 2013	\$600,504	100%	-
June 30, 2012	\$586,087	100%	-
June 30, 2011	\$567,371	100%	-

Funded Status and Funding Progress

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, 2013

**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, 2013. This amounted to \$710,213.

<u>Due From:</u>	<u>Due To:</u>
Nonmajor Governmental Funds	<u>General Fund</u>
Total	<u>\$ 710,213</u>
	<u>\$ 710,213</u>

Interfund Transfers for the year ended June 30, 2013 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	
	Governmental Funds	Total
General Fund	<u>\$69,415</u>	<u>\$69,415</u>
Totals	<u>\$69,415</u>	<u>\$69,415</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, 2013

### **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, 2013, were \$171,193 and \$22,062 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 \$444,928, primarily to fund additional transportation expenditures, administrative costs, and plant operation and maintenance.

### **13.) Deficit Fund Balance**

At June 30, 2013, the Food Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$195,221, due to low summer feeding and the Community Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$288,759, 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, 2013

**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	\$	707,000
Interest on NPO		157,630
Adjustment to the ARC		<u>(167,321)</u>
Annual OPEB Cost		697,309
Amount of contribution		<u>(728,231)</u>
Decrease in NPO		(30,922)
Net OPEB obligation - 7/1/12		<u>3,940,748</u>
Net OPEB obligation - 6/30/13	\$	<u><u>3,909,826</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>
6/30/2013	Teachers Group	\$ 697,309	104.43%	\$ 3,909,826
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

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**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 initially. The trend decreased 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 initially. The rate reduced to 6.25 percent for 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, which also represent projected salary increase. 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 July 1, 2007.

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Notes to Financial Statements

For the Year Ended June 30, 2013

**15.) Prior Period Adjustment**

The District implemented *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*, in the current year. GASB No. 65 requires with the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt, but recognized as an expense in the period incurred. A prior period adjustment of \$196,911 was made to account for bond issuance cost incurred in prior years that was previously deferred and was being amortized.

**16.) Subsequent Events**

Subsequent events were evaluated through October 31, 2013, 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, 2013

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	99.14%	\$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 Fund- 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, 2013**

	Special Revenues Funds			
<u>Assets</u>	Food Service Fund	Federal Projects Fund	Community Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 250	\$ -	\$ 25	\$ 275
Accounts receivable	59	-	-	59
Due from other governments	64,045	515,492	57,832	637,369
Inventory	44,965	-	-	44,965
	<b>109,319</b>	<b>515,492</b>	<b>57,857</b>	<b>682,668</b>
 <u>Liabilities</u>				
Accrued payroll and other liabilities	144,127	214,870	52,072	411,069
Due to other funds	140,304	300,622	269,287	710,213
	<b>284,431</b>	<b>515,492</b>	<b>321,359</b>	<b>1,121,282</b>
 <u>Deferred Inflows of Resources</u>				
Deferred inflows- cafeteria charges	20,109	-	-	20,109
Deferred inflows- tuition	-	-	25,257	25,257
	<b>20,109</b>	<b>-</b>	<b>25,257</b>	<b>45,366</b>
 <u>Fund Balances:</u>				
Nonspendable:				
Inventory	44,965	-	-	44,965
Unassigned	(240,186)	-	(288,759)	(528,945)
Total Fund Balance	<b>(195,221)</b>	<b>-</b>	<b>(288,759)</b>	<b>(483,980)</b>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<b>\$ 109,319</b>	<b>\$ 515,492</b>	<b>\$ 57,857</b>	<b>\$ 682,668</b>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

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

**Nonmajor Governmental Funds**

**June 30, 2013**

	<u>Special Revenues Funds</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	<u>Federal Projects Fund</u>	<u>Community Service Fund</u>	
<b>Revenues</b>				
Intergovernmental:				
USDA and cafeteria related funds	\$ 1,150,990	\$ -	\$ -	\$ 1,150,990
Federal instruction, learning center and safety funds	-	1,278,466	100,000	1,378,466
Federal education of the handicapped funds	-	932,880	-	932,880
Charges for services:				
Cafeteria charges	751,200	-	-	751,200
Fees and tuition	-	-	933,827	933,827
Other	104,911	-	27,459	132,370
<b>Total Revenues</b>	<u>2,007,101</u>	<u>2,211,346</u>	<u>1,061,286</u>	<u>5,279,733</u>
<b>Expenditures</b>				
Food service:				
Labor	728,326	-	-	728,326
Employee benefits	305,026	-	-	305,026
Food	887,631	-	-	887,631
Other Costs	112,737	-	-	112,737
Regular instruction:				
Labor	-	539,903	-	539,903
Employee benefits	-	125,839	-	125,839
Supplies and materials	-	316,759	-	316,759
Other costs	-	101,744	-	101,744
Special needs instruction:				
Current:				
Labor	-	538,176	-	538,176
Employee benefits	-	272,645	-	272,645
Supplies and materials	-	17,473	-	17,473
Other costs	-	116,184	-	116,184
Program Costs:				
Labor	-	33,126	792,332	825,458
Employee benefits	-	2,551	209,035	211,586
Other costs	-	81,654	92,676	174,330
<b>Total Expenditures</b>	<u>2,033,720</u>	<u>2,146,054</u>	<u>1,094,043</u>	<u>5,273,817</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(26,619)</u>	<u>65,292</u>	<u>(32,757)</u>	<u>5,916</u>
<b>Other Financing Sources (Uses)</b>				
Transfer in (out)	-	(65,292)	(4,123)	(69,415)
<b>Total other Financing Sources (Uses)</b>	<u>-</u>	<u>(65,292)</u>	<u>(4,123)</u>	<u>(69,415)</u>
Net Change in Fund Balance	(26,619)	-	(36,880)	(63,499)
Fund Balance, Beginning of Year	(174,776)	-	(251,879)	(426,655)
Change in reserve for inventory	6,174	-	-	6,174
Fund Balance, End of Year	<u>\$ (195,221)</u>	<u>\$ -</u>	<u>\$ (288,759)</u>	<u>\$ (483,980)</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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
USDA reimbursements	\$ 874,200	\$ 1,019,797	\$ 1,133,226	\$ 113,429
State matching	17,771	17,771	17,764	(7)
Total intergovernmental	891,971	1,037,568	1,150,990	113,422
Charges for services				
Student lunches	530,000	530,000	450,586	(79,414)
Adult lunches	56,000	56,000	46,155	(9,845)
Student breakfast	50,000	50,000	51,402	1,402
A-la-carte sales	205,000	205,100	203,057	(2,043)
Rebates and other	110,000	110,000	104,911	(5,089)
Total charges for services	951,000	951,100	856,111	(94,989)
 Total Revenues	1,842,971	1,988,668	2,007,101	18,433
 Expenditures:				
Food	600,000	929,097	887,631	(41,466)
Labor	674,553	775,053	728,326	(46,727)
Fringe benefits	265,605	265,605	305,026	39,421
Supplies	50,500	53,000	72,775	19,775
Transportation	15,000	15,000	7,986	(7,014)
Repairs and maintenance	14,000	14,000	17,014	3,014
Other	14,800	14,800	14,962	162
 Total Expenditures	1,634,458	2,066,555	2,033,720	(32,835)
 Excess (deficiency) revenues over expenditures (Net change in Fund Balance)	208,513	(77,887)	(26,619)	51,268
 Fund Balance, Beginning of Year	199,589	(99,340)	(174,776)	(75,436)
Change in Reserve for Inventory	-	-	6,174	6,174
Fund Balance, End of Year	\$ 408,102	\$ (177,227)	\$ (195,221)	\$ (17,994)

**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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Title I	\$ 599,344	\$ 538,117	\$ 519,617	\$ (18,500)
Title II	111,968	133,201	124,571	(8,630)
Title III	65,999	59,647	55,509	(4,138)
IDEA - part B and preschool	971,716	1,010,946	932,880	(78,066)
First to the Top	84,037	581,643	540,790	(40,853)
Federal Ed Jobs Program	307	307	307	-
REMS	76,902	37,672	37,672	-
Total Revenues	<u>1,910,273</u>	<u>2,361,533</u>	<u>2,211,346</u>	<u>(150,187)</u>
Expenditures:				
Regular instruction:				
Teachers	232,263	262,145	259,992	(2,153)
Other salaries	281,273	302,027	279,911	(22,116)
Benefits	146,860	131,983	125,839	(6,144)
Instructional supplies and materials	75,288	324,079	316,759	(7,320)
Other	32,483	109,636	101,744	(7,892)
Total regular instruction	<u>768,167</u>	<u>1,129,870</u>	<u>1,084,245</u>	<u>(45,625)</u>
Special needs instruction:				
Teachers and assistants	582,513	587,883	538,176	(49,707)
Benefits	293,461	297,827	272,645	(25,182)
Supplies	39,230	20,044	17,473	(2,571)
Contracted services	36,118	118,388	116,184	(2,204)
Capital outlay	-	-	-	-
Total special needs instruction	<u>951,322</u>	<u>1,024,142</u>	<u>944,478</u>	<u>(79,664)</u>
Program costs:				
Teachers and assistants	55,984	32,000	33,126	1,126
Benefits	4,299	2,516	2,551	35
Supplies	3,547	34,800	23,202	(11,598)
Other	55,187	68,612	58,452	(10,160)
Total program costs	<u>119,017</u>	<u>137,928</u>	<u>117,331</u>	<u>(20,597)</u>
Total Expenditures	<u>1,838,506</u>	<u>2,291,940</u>	<u>2,146,054</u>	<u>(145,886)</u>
Excess (deficiency) revenues over expenditures	71,767	69,593	65,292	(4,301)
Other Financing Sources (Uses):				
Transfer out	<u>(71,767)</u>	<u>(69,592)</u>	<u>(65,292)</u>	<u>4,300</u>
Total Other Financing Sources (Uses)	<u>(71,767)</u>	<u>(69,592)</u>	<u>(65,292)</u>	<u>4,300</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, 2013

	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	969,875	969,875	933,827	(36,048)
Total charges for services	<u>969,875</u>	<u>1,069,875</u>	<u>1,033,827</u>	<u>(36,048)</u>
Other				
Miscellaneous	174,677	174,677	27,459	(147,218)
Total other	<u>174,677</u>	<u>174,677</u>	<u>27,459</u>	<u>(147,218)</u>
Total Revenues	<u>1,144,552</u>	<u>1,244,552</u>	<u>1,061,286</u>	<u>(183,266)</u>
Expenditures:				
Labor	657,604	806,842	792,332	(14,510)
Fringe benefits	184,268	193,068	209,035	15,967
Supplies	4,000	24,609	11,495	(13,114)
Food	34,000	55,000	54,263	(737)
Other	12,800	20,030	26,918	6,888
Total Expenditures	<u>892,672</u>	<u>1,099,549</u>	<u>1,094,043</u>	<u>(5,506)</u>
Excess (deficiency) revenues over expenditures	251,880	145,003	(32,757)	(177,760)
Other Financing Sources (Uses):				
Transfers In	<u>-</u>	<u>(4,123)</u>	<u>(4,123)</u>	<u>-</u>
Net change in Fund Balance	251,880	140,880	(36,880)	(177,760)
Fund Balance, Beginning of Year	<u>32,835</u>	<u>(42,165)</u>	<u>(251,879)</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 284,715</u>	<u>\$ 98,715</u>	<u>\$ (288,759)</u>	<u>\$ (177,760)</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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Impact fees	\$ 625,000	\$ 713,000	\$ 934,200	\$ 221,200
Total intergovernmental revenues				
Other revenue from local sources:				
Interest earnings	1,200	1,200	2,644	1,444
Total Revenues	<u>626,200</u>	<u>714,200</u>	<u>936,844</u>	<u>222,644</u>
Expenditures:				
Current:				
Regular instruction	-	-	248,760	248,760
Principal on capital lease	67,277	67,277	67,277	-
Interest on capital lease	5,188	5,188	5,188	-
Total current expenditures	<u>72,465</u>	<u>72,465</u>	<u>321,225</u>	<u>248,760</u>
Capital outlay:	<u>683,500</u>	<u>771,500</u>	<u>517,944</u>	<u>(253,556)</u>
Total Expenditures	<u>683,500</u>	<u>843,965</u>	<u>839,169</u>	<u>(4,796)</u>
Excess (deficiency) revenues over expenditures	<u>(57,300)</u>	<u>(129,765)</u>	<u>97,675</u>	<u>227,440</u>
Fund Balance, Beginning of Year	<u>637,409</u>	<u>764,959</u>	<u>919,585</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 580,109</u>	<u>\$ 635,194</u>	<u>\$ 1,017,260</u>	<u>\$ 382,066</u>

**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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$ 5,471,470	\$ 5,478,470	\$ 5,534,356	\$ 55,886
Property tax - prior year	80,000	80,000	30,924	(49,076)
Property tax - pick-up	40,000	40,000	62,784	22,784
Interest and penalty on delinquent taxes	19,000	19,000	13,278	(5,722)
Total special school district taxes	5,610,470	5,617,470	5,641,342	23,872
Other revenue from local sources:				
Interest earnings	3,000	3,000	4,043	1,043
Total Revenues	5,613,470	5,620,470	5,645,385	24,915
Expenditures:				
Other:				
Trustee's commission	121,329	128,329	112,400	(15,929)
Debt Service:				
Principal on bonds, notes, and capital leases	4,300,000	4,300,000	4,300,000	-
Interest on bonds, notes, and capital leases	1,127,723	1,127,723	1,124,293	(3,430)
Total Debt Service	5,427,723	5,427,723	5,424,293	(3,430)
Total Expenditures	5,549,052	5,556,052	5,536,693	(19,359)
Excess (deficiency) revenues over expenditures	64,418	64,418	108,692	44,274
Fund Balance, Beginning of Year	2,816,786	1,839,486	2,123,192	69,399
Fund Balance, End of Year	\$ 2,881,204	\$ 1,903,904	\$ 2,231,884	\$ 113,673

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Capital Assets Used in the Operation of Governmental Funds

Schedule By Function and Activity

June 30, 2013

Function and Activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Instruction	\$ -	\$ -	\$ -	\$ 5,538,687	\$ -	\$ 5,538,687
Attendance and health	-	-	-	32,728	-	32,728
Transportation	-	-	-	52,437	2,307,174	2,359,611
Plant operation and maintenance	2,244,827	56,805,314	25,479,786	206,875	194,868	84,931,670
Community services	-	-	-	56,630	-	56,630
Food service	-	-	-	1,955,666	-	1,955,666
Administration	-	-	-	691,882	-	691,882
	<u>\$ 2,244,827</u>	<u>\$ 56,805,314</u>	<u>\$ 25,479,786</u>	<u>\$ 8,534,905</u>	<u>\$ 2,502,042</u>	<u>\$ 95,566,874</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, 2013

Function and Activity	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Instruction	\$ 5,844,121	\$ 304,009	\$ 483,438	\$ 5,664,692
Attendance and health	39,622	-	-	39,622
Transportation	2,296,203	169,340	105,854	2,359,689
Plant operation and maintenance	84,700,614	1,308,667	127,972	85,881,309
Community services	56,630	-	-	56,630
Food service	1,955,666	16,208	4,214	1,967,660
Administration	<u>719,834</u>	<u>-</u>	<u>25,866</u>	<u>693,968</u>
	<u>\$ 95,612,690</u>	<u>\$ 1,798,224</u>	<u>\$ 747,344</u>	<u>\$ 96,663,570</u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Cash and Cash Equivalents

All Funds

June 30, 2013

	<u>Interest Rate</u>	<u>Amount</u>
Major Funds:		
<u>General Fund</u>		
Checking and savings accounts	Various	\$ 891,548
Local government investment pool	Various	<u>6,334,763</u>
Total General Fund		<u>7,226,311</u>
 <u>Debt Service Fund</u>		
Checking and savings accounts	Various	28,019
Local government investment pool	Various	<u>2,167,554</u>
		<u>2,195,573</u>
 <u>Capital Projects Fund</u>		
Checking and savings accounts	Various	304,899
Local government investment pool	Various	<u>682,441</u>
		<u>987,340</u>
 Nonmajor Funds:		
<u>Federal Projects Fund</u>		
Checking and savings account		<u>-</u>
 <u>Food Service Fund</u>		
Checking and savings accounts		<u>250</u>
 <u>Community Service Fund</u>		
Cash		<u>25</u>
 Total		 <u><u>\$ 10,409,499</u></u>

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Long-Term Debt Requirements

June 30, 2013

Fiscal Year	1999 Series	2007A Series	2009A Series	2009B Series	2012 Series	Capital Outlay Notes	Total Principal	Interest	Total Principal & Interest
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
Total	<u>\$ 10,249,578</u>	<u>\$ 11,645,000</u>	<u>\$ 5,500,000</u>	<u>\$ -</u>	<u>\$ 6,725,000</u>	<u>\$ -</u>	34,119,578	29,890,837	<u>\$ 64,010,415</u>
Accereted interest	<u>12,498,231</u>						12,498,231	(12,498,231)	
	<u>\$ 22,747,809</u>						<u>\$ 46,617,809</u>	<u>\$ 17,392,606</u>	

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

<u>Program Name</u>	<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures/ Uses</u>
Title I	TN. Dept. of Education	84.010 A		\$ 534,617
Title III, Part A	TN. Dept. of Education	84.365 A		55,509
IDEA Part B	* TN. Dept. of Education	84.027	H027A1000052	983,282
IDEA Preschool	* TN. Dept. of Education	84.173	H173A1000095	55,211
Title II, Part A	TN. Dept. of Education	84.367 A		124,417
Title II, Part D	TN. Dept. of Education	84.318 X		154
First to the Top -ARRA	* TN. Dept. of Education	84.395	S395A100032	540,790
USDA - Lunch	* TN. Dept. of Agriculture	10.555		765,044
USDA - Breakfast	* TN. Dept. of Agriculture	10.553		240,085
Readiness and Emergency Management for Schools	U.S. Dept. of Education	84.184E		37,672
Federal Education Jobs Program	TN. Dept. of Education	84.410	S410A100043	307
<u>Non Cash Federal:</u>				
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.55		<u>128,097</u>
Total Federal Assistance				<u><u>\$ 3,465,185</u></u>

\* Major Program

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Federal and State Financial Assistance Programs

For the Year Ended June 30, 2013

Program Name	Grantor Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Balance July 1, 2012	Receipts	Expenditures/ Uses	Balance June 30, 2013
<u>Federal Program:</u>							
Title I	TN. Dept. of Education	84.010 A		\$ (145,506)	\$ 554,743	\$ 534,617	\$ (125,380)
Title III, Part A	TN. Dept. of Education	84.365 A		(797)	53,545	55,509	(2,761)
IDEA Part B	* TN. Dept. of Education	84.027	H027A100052	(229,915)	985,661	983,282	(227,536)
IDEA Preschool	* TN. Dept. of Education	84.173	H173A100095	(4,675)	55,601	55,211	(4,285)
Title II, Part A	TN. Dept. of Education	84.367 A		(15,412)	119,111	124,417	(20,718)
Title II, Part D	TN. Dept. of Education	84.318 X		(15)	169	154	-
First to the Top- ARRA	* TN. Dept. of Education	84.395	S395A100032	(3,900)	409,878	540,790	(134,812)
USDA - Lunch	* TN. Dept. of Agriculture	10.555		(101,479)	818,148	765,044	(48,375)
USDA - Breakfast	* TN. Dept. of Agriculture	10.553		(31,097)	259,397	240,085	(11,785)
HUSSC	TN Dept. of Education	10.574		(7,000)	6,500	-	(500)
Readiness and Emergency Management for Schools	U.S. Dept. of Education	84.184E		(10,501)	48,173	37,672	-
Federal Education Jobs Program	TN. Dept. of Education	84.410	S410A100043	(132,577)	132,884	307	-
<u>Non Cash Federal:</u>							
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.55		-	128,097	128,097	-
Total Federal Assistance				<u>\$ (682,874)</u>	<u>\$ 3,571,907</u>	<u>\$ 3,465,185</u>	<u>\$ (576,152)</u>
<u>State Grants:</u>							
			State Number				
Lottery for Pre K/Pre K Pilot	TN. Dept. of Education	N/A		(99,119)	262,684	275,827	(112,262)
Lottery for Education After School	TN. Dept of Education	N/A		(31,480)	73,648	100,000	(57,832)
Coordinated School Health Grant	TN. Dept of Education	N/A		(50,846)	107,609	80,000	(23,237)
Safe Schools Act of 1998	TN. Dept of Education	N/A		(14,300)	14,300	13,934	(13,934)
SSMS	TN. Dept of Education	N/A		-	9,898	9,898	-
BEP	TN. Dept of Education	N/A		-	13,248,639	13,248,639	-
Extended Contracts	TN. Dept. of Education	N/A		26,526	65,900	75,880	16,546
Career Ladder	TN. Dept. of Education	N/A		(6,158)	190,223	192,592	(8,527)
Total State Assistance				<u>\$ (175,377)</u>	<u>\$ 13,972,901</u>	<u>\$ 13,996,770</u>	<u>\$ (199,246)</u>

Note: Brackets signify a receivable.

\* Major Program

**FRANKLIN SPECIAL SCHOOL DISTRICT**

Schedule of Surety Bond and Insurance Coverage

June 30, 2013

Insurance Company	Type of Insurance	Amount	Coverage
The Ohio Casualty Insurance Co.	Public Official Bond	\$ 1,126,904	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 & Portable 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, 2013

<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	*
Alicia Barker	Member, Board of Education	*
Robin Newman	Member, Board of Education	*
David L. Snowden, Ph.D.	Director of Schools	**

\* Elected at-Large

\*\* Appointed

## **OTHER REPORTS**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As 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*.

### **Purpose of this Report**

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

A handwritten signature in blue ink that reads "Matlock Clements, P.C." in a cursive style.

October 31, 2013

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

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

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

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, 2013. 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.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



October 31, 2013

**FRANKLIN SPECIAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**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 # 84.395      First to The Top ARRA
- CFDA # 10.555      USDA Lunch
- CFDA # 10.553      USDA Breakfast
- CFDA # 84.027      IDEA Part B
- CFDA # 84.173      IDEA Preschool

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

**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.