FRANKLIN SPECIAL SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

Matlock Clements

Certified Public Accountants

FRANKLIN SPECIAL SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

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, 2014, 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, 2014, 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 Schedules of Funding Progress on pages 6-16 and 46 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 29, 2014, 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.

Matlock Clements, P.C.
Murfreesboro, Tennessee
October 29, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The net position for the fiscal year was approximately $14.2 million while the change in net position increased $220,451.

- Outlays for new capital assets totaled approximately $1.2 million and consisted of technology and maintenance equipment, various repairs and improvements and two new school buses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities
One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets, 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.

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 Activities) and governmental funds (as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) is reconciled in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net 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 $14.2 million at the close of the fiscal year.

A schedule of the District's net position at June 30, 2013 (for comparison) and 2014 follows:

	Governmental Activities	
	2014	***2013***
Current and other assets	$ 40,975,429	$ 40,953,287
Capital assets, net	56,815,322	58,772,905
Total assets	97,790,751	99,726,192
Long-term liabilities	45,625,275	46,796,306
Other liabilities	9,025,081	10,316,849
Total liabilities	54,650,356	57,113,155
Deferred property taxes	28,956,305	28,649,398
Total Deferred Inflows of resources	28,956,305	28,649,398
Net position:		
Invested in capital assets, net of related debt	26,371,840	24,304,093
Restricted	10,330	16,546
Unrestricted	(12,198,080)	(10,357,000)
Total net position	$ 14,184,090	$ 13,963,639

The District's net position of approximately 14.2 million can be attributed 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 $13.8 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 3,758 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.

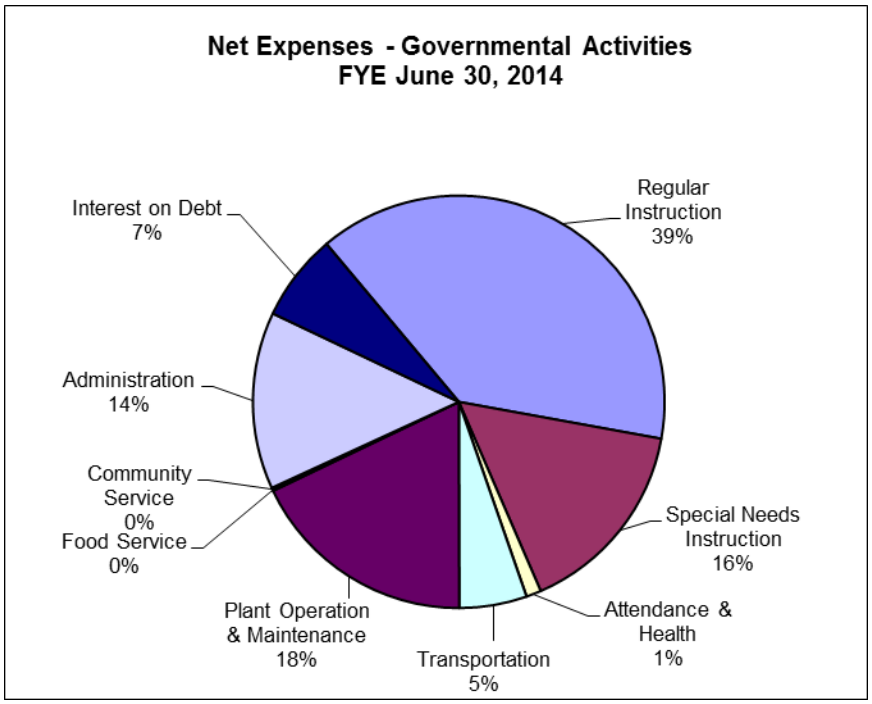
Changes in Net Position

The District's activities are categorized as "governmental" activities. Net position of the District's governmental activities increased by $220,451. The increase in net position resulted primarily from total general revenues exceeding the total net expenditures of the primary governmental activities.

The Statement of Activities show 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.

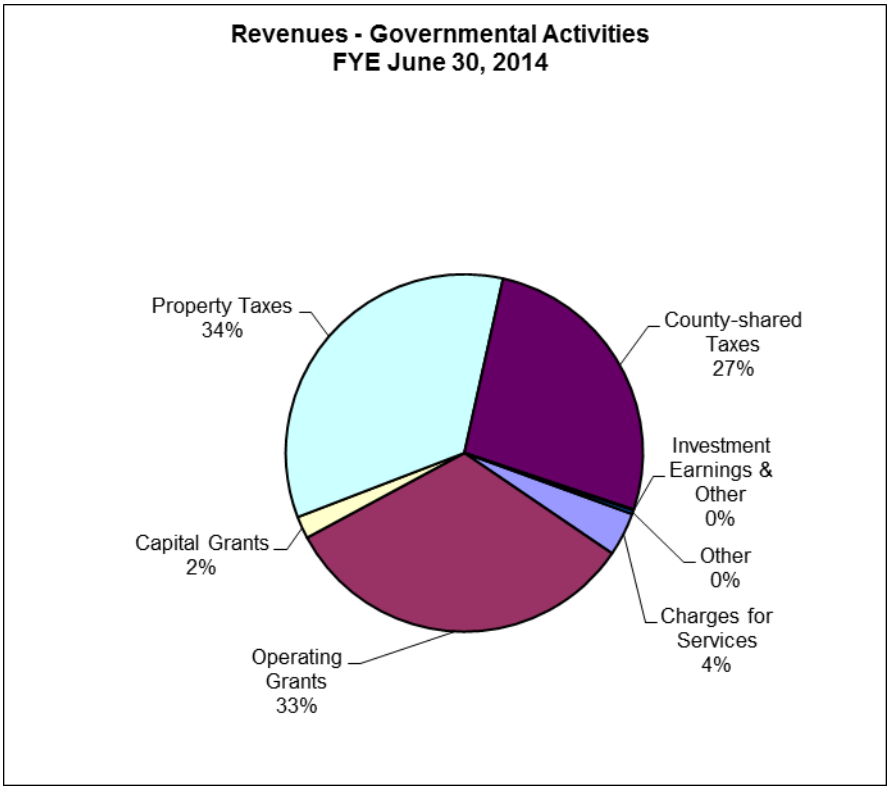
Change in Net Position - Governmental Activities

	Total Cost of Services	*Less: Program Revenues*	*Net Cost of Services*	*Net Cost of Services*
Program Expenses:			**2014**	**2013**
Instruction:				
Regular	$ 30,262,509	$ (17,197,346)	$ 13,065,163	$ 12,315,022
Special needs	6,317,758	(1,081,986)	5,235,772	5,236,425
Support Services:				
Attendance and health	394,045	-	394,045	387,414
Transportation	1,780,022	-	1,780,022	1,708,286
Plant operations and maintenance	6,010,490	-	6,010,490	5,840,670
Food service	2,063,361	(2,030,788)	32,573	65,105
Community service	1,171,708	(1,117,729)	53,979	178,647
Administration	4,659,715		4,659,715	4,153,693
Interest on debt	2,291,241	-	2,291,241	2,314,197
Total	$ 54,950,849	$ (21,427,849)	33,523,000	32,199,459
Less: General Revenues			33,743,451	32,867,174
Change in Net Position			$ 220,451	$ 667,715



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, 57% 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, $33.7 million of general revenues were realized to support $33.5 million of governmental activities.

	Governmental 2014 Activities	%	*Governmental 2013 Activities*	%
Program Revenues:				
Charges for services	$ 2,167,175	3.9%	$ 2,121,463	4.0%
Operating grants	18,151,112	32.9%	17,455,210	32.7%
Capital grants	1,109,562	2.0%	934,200	1.8%
	21,427,849	38.8%	20,510,873	38.4%
General Revenues:				
Property taxes	18,863,913	34.2%	17,849,940	33.4%
County-shared taxes	14,645,279	26.5%	14,805,526	27.7%
Investment earnings	55,892	0.1%	79,344	0.1%
Other	178,367	0.3%	132,364	0.2%
	33,743,451	61.2%	32,867,174	61.6%
Total Revenues	$ 55,171,300	100.0%	$ 53,378,047	100.0%



Property taxes and county-shared taxes, including sales tax and State BEP funds, accounted for most of the District's general revenues, contributing about 34 cents and 27 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 $5.6 million, a decrease of $497,728 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, 2014.

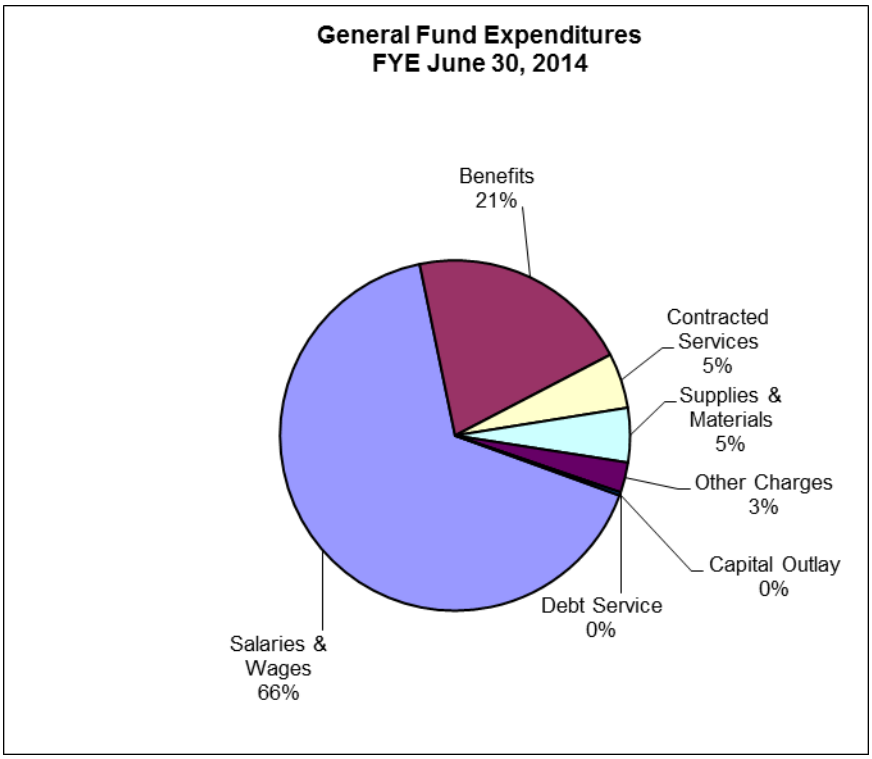
	Balance, June 30, 2014	Balance, June 30, 2013	Increase (Decrease)
General	$ 3,060,876	$ 3,318,512	$ (257,636)
Debt Service	1,999,390	2,231,884	(232,494)
Nonmajor Funds:			
Food Service	(194,805)	(195,221)	416
Federal Projects	-	-	-
Community Service	(193,489)	(288,759)	95,270
Capital Outlay	913,976	1,017,260	(103,284)
Total	$ 5,585,948	$ 6,083,676	$ (497,728)

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 $3,060,876. The unreserved fund balance of $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 6.9% of total General Fund expenditures.

Expenditures exceeded revenue for the fiscal year, which resulted in a decrease to the fund balance of $257,636.

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



General Fund Expenditures - By Object

	2014	2013
Salaries & Wages	$ 28,974,493	$ 28,035,586
Benefits	9,235,673	8,554,618
Contracted Services	2,227,942	2,095,236
Supplies & Materials	2,198,001	2,004,817
Other Charges	1,162,293	1,142,007
Capital Outlay	-	-
Debt Service	126,183	578
Total	$ 43,924,585	$ 41,832,842

Other Funds

The Debt Service Fund is used to account for funds reserved for the retirement of the District's debt. The fund balance of the District's Debt Service Fund decreased $232,494 due to a decrease in revenue that was 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 increased $416 due to increased number of meals served in the summer and decreased costs for labor 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 increased $95,270 due primarily to increased price rates, increased participation and decreased labor cost.

The fund balance of the Capital Outlay Fund decreased $103,284 due to an increase in expenditures that were anticipated and reflected in the budget. 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 $44.5 million and the estimated revenues totaled $43.3 million. Final budgeted expenditures in the General Fund were $45 million. Amendments related primarily to grants.

During the year, however, the District realized a slight revenue shortfall primarily due to county revenue and made an effort to spend conservatively. Consequently, expenditures were less than budgetary estimates by $1,091,773 at year-end, and actual revenues were less than budgetary estimates by $132,871. Subsequently, total expenditures exceeded revenues and transfers for the fiscal year, decreasing the fund balance by $257,636.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has $56.8 million invested in capital assets (net of accumulated depreciation of $39.5 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 $1,153,933. Detailed information regarding capital asset activity is included in the notes to financial statements (see Note 3).
The District's capital assets at June 30, 2014 as summarized by location follow:

Location	Owned Acreage	Cost	Accumulated Depreciation	2014 Cost, Net	2013 Cost, Net
Franklin Elementary	16.7	$ 11,341,156	$ 5,656,842	$ 5,684,314	$ 5,935,674
Johnson Elementary	13.7	$ 7,429,287	$ 2,566,055	4,863,232	5,024,702
Liberty Elementary	37.0	$ 8,660,270	$ 4,218,962	4,441,308	4,614,248
Moore Elementary	20.0	$ 11,175,683	$ 4,498,397	6,677,286	7,010,767
Freedom Intermediate	25.0	$ 18,675,400	$ 6,179,490	12,495,910	13,354,685
Freedom Middle	37.4	$ 12,268,612	$ 5,786,787	6,481,825	6,715,151
Poplar Grove	37.3	$ 21,050,398	$ 6,951,446	14,098,952	14,615,695
Central Office	2.6	$ 624,717	$ 383,203	241,514	251,013
Central Office Annex	6.6	$ 2,374,905	$ 1,244,493	1,130,412	564,198
Transportation	-	$ 2,441,256	$ 1,824,625	616,631	635,694
Maintenance/Landscaping	-	$ 293,403	$ 209,465	83,938	51,078
Total	196.3	$ 96,335,087	$ 39,519,765	56,815,322	58,772,905
Less: Outstanding Debt				(30,443,482)	(34,468,812)
Plus: Bond Proceeds (net of contracts payable)				-	-
Net Investment in Capital Assets				$ 26,371,840	$ 24,304,093

Long-Term Debt

At June 30, 2014, the District had general obligation bonds outstanding of $43,621,281, a capital lease of $451,849, a liability for compensated absences of $308,895 and a net OPEB obligation of $4,027,880. This is as compared to the June 30, 2013, balances of $46,617,809 for general obligation bonds, a capital lease of $69,723, a liability for compensated absences of $405,435 and a net OPEB obligation of $3,909,826. 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).

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 no increase in BEP funds from the State in the ensuing fiscal year.
- There will be a slight increase in revenue from property taxes due to normal growth.

All of these factors were considered in preparing the District's budget for the 2014-2015 fiscal year. Total General Fund appropriations approved by the District's Board of Education total $44.9 million for the 2014-2015 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, 2014

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents	$ 10,199,329
Receivables (net of allowance of uncollectibles):	
Taxes	14,147,659
Due from other governments	16,562,143
Accounts receivable	23,599
Inventories	42,699
Non depreciable capital assets	2,244,827
Depreciable capital assets net accumulated depreciation	54,570,495
Total Assets	97,790,751
Liabilities	
Accounts payable	132,228
Accrued payroll and other liabilities	5,768,100
Retainage payable	30,899
Accrued interest	73,588
Advances in cafeteria charges	18,912
Advances in tuition	24,669
Long-term liabilities due within one year	2,976,685
Long-term liabilities due in more than one year	45,625,275
Total Liabilities	54,650,356
Deferred inflows of resources	
Deferred inflows-property taxes	28,956,305
Total Deferred Inflows of Resources	28,956,305
Net Position	
Net investment in capital assets	26,371,840
Restricted for special programs	10,330
Unrestricted	(12,198,080)
Total Net Position	$ 14,184,090

The notes to the financial statements are an integral part of this statement. See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions / Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Regular instruction	$ 30,262,509	$ 309,811	$ 15,777,973	$ 1,109,562	$ (13,065,163)
Special needs instruction	6,317,758	-	1,081,986	-	(5,235,772)
Attendance and health	394,045	-	-	-	(394,045)
Transportation	1,780,022	-	-	-	(1,780,022)
Plant operation and maintenance	6,010,490	-	-	-	(6,010,490)
Food service	2,063,361	844,635	1,186,153	-	(32,573)
Community service	1,171,708	1,012,729	105,000	-	(53,979)
Administration	4,659,715	-	-	-	(4,659,715)
Interest of debt	2,291,241	-	-	-	(2,291,241)
Total Govermental Activities	$ 54,950,849	$ 2,167,175	$ 18,151,112	$ 1,109,562	$ (33,523,000)

General Revenues:	
Property taxes	18,863,913
County shared taxes	14,645,279
Unrestricted investment earnings and rental income	55,892
Other	178,367
Total general revenues	33,743,451
Change in net position	220,451
Net position - beginning of year	13,963,639
Net position - end of year	$ 14,184,090

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2014

Assets	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 7,350,674	$ 876,023	$ 1,972,607	$ 25	$ 10,199,329
Taxes receivable	14,147,659	-	-	-	14,147,659
Due from other governments	10,614,106	87,865	5,277,986	582,186	16,562,143
Receivables	7,313	-	-	16,286	23,599
Inventory	-	-	-	42,699	42,699
Due from other funds	593,496	-	-	-	593,496
Total Assets	$ 32,713,248	$ 963,888	$ 7,250,593	$ 641,196	$ 41,568,925
Liabilities					
Accounts payable	113,215	19,013	-	-	132,228
Accrued liabilities	5,375,687	-	-	392,413	5,768,100
Retainage payable	-	30,899	-	-	30,899
Due to other funds	-	-	-	593,496	593,496
Advances of cafeteria charges	-	-	-	18,912	18,912
Advances of tuition	-	-	-	24,669	24,669
Total Liabilities	5,488,902	49,912	-	1,029,490	6,568,304
Deferred inflows of resourses					
Deferred inflows- property taxes	24,163,470	-	5,251,203	-	29,414,673
Total Deferred Inflows of Resources	24,163,470	-	5,251,203	-	29,414,673
Fund Balances					
Nonspendable:					
Inventory	-	-	-	42,699	42,699
Restricted:					
Restricted for Education	10,330	-	-	-	10,330
Committed:					
Committed for Debt Service	-	-	1,999,390	-	1,999,390
Committed for Capital Outlay	-	913,976	-	-	913,976
Assigned:					
Assigned for Education (Young Scholars)	23,764	-	-	-	23,764
Unassigned	3,026,782	-	-	(430,993)	2,595,789
Total Fund Balances	3,060,876	913,976	1,999,390	(388,294)	5,585,948
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 32,713,248	$ 963,888	$ 7,250,593	$ 641,196	$ 41,568,925

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

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

June, 30 2014

Amounts reported for fund balance - total governmental funds		$ 5,585,948
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		56,815,322
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		458,368
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(73,588)
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.		(192,055)
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	$ (43,621,281)	
Capital lease payable	(451,849)	
Other post employment benefits	(4,027,880)	
Compensated absences	(308,895)	(48,409,905)
Net position of governmental activities		$ 14,184,090

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

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

For the Year Ended June 30, 2014

Revenues	General	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Taxes	$ 13,631,003	$ -	$ 5,189,042	$ -	$ 18,820,045
Intergovernmental	29,533,564	1,109,562	-	3,259,613	33,902,739
Charges for services	309,811	-	-	1,747,498	2,057,309
Uses of money and property	45,765	7,987	2,140	-	55,892
Other	146,696	-	14,261	141,537	302,494
Total Revenue	43,666,839	1,117,549	5,205,443	5,148,648	55,138,479
Expenditures					
Current:					
Regular instruction	28,572,673	574,829	-	893,961	30,041,463
Special needs instruction	5,431,424	-	-	891,749	6,323,173
Attendance and health	393,883	-	-	-	393,883
Transportation	1,562,319	-	-	-	1,562,319
Plant operation and maintenance	3,463,165	-	-	-	3,463,165
Food service	-	-	-	2,028,106	2,028,106
Community service	-	-	-	1,054,130	1,054,130
Administration	4,374,938	-	104,179	182,750	4,661,867
Debt service	126,183	176,583	5,333,758	-	5,636,524
Capital outlay	-	1,153,933	-	-	1,153,933
Total Expenditures	43,924,585	1,905,345	5,437,937	5,050,696	56,318,563
Excess (deficiency) revenues over expenditures	(257,746)	(787,796)	(232,494)	97,952	(1,180,084)
Other Financing Sources (Uses)					
Proceeds from capital leases	-	680,828	-	-	680,828
Sale of capital assets	110	3,684	-	-	3,794
Total Other Financing Sources (Uses)	110	684,512	-	-	684,622
Net Change in Fund Balance	(257,636)	(103,284)	(232,494)	97,952	(495,462)
Fund Balance, Beginning of Year	3,318,512	1,017,260	2,231,884	(483,980)	6,083,676
Change in inventory reserve	-	-	-	(2,266)	(2,266)
Fund Balance, End of Year	$ 3,060,876	$ 913,976	$ 1,999,390	$ (388,294)	$ 5,585,948

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

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

For the Year Ended June 30, 2014

Amounts reported for net change in fund balance - total governmental funds		$ (495,462)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense in the current period.		
Cost of assets acquired	$ 1,153,933	
Depreciation expense	(3,111,516)	
		(1,957,583)
Revenues in the statement of actvities that do not provide current financial resources are not reported as revenues in the funds.		
County collected and shared taxes		32,821
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	$ 39,043	
Capital lease	(680,828)	
Capital lease payments	298,702	
Bond and note payments	4,320,000	3,976,917
Interest is accrued on the outstanding bonds in the statement of activities, whereas in the governmental funds, an interest expenditure is reported when due.		11,010
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	$ (2,266)	
Compensated absences	96,540	
Other post employment benefits	(118,054)	
Accreted interest	(1,323,472)	(1,347,252)
Change in net position of governmental activities		$ 220,451

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Special School District taxes:				
Property tax - current year	$ 13,371,201	$ 13,371,201	$ 13,320,242	$ (50,959)
Property tax - prior year	150,000	150,000	166,242	16,242
Property tax - pickup	75,000	75,000	107,415	32,415
Interest and penalty on delinquent taxes	40,000	40,000	37,104	(2,896)
Total special school district taxes	13,636,201	13,636,201	13,631,003	(5,198)
Intergovernmental revenue				
County Revenue:				
Property tax - current year	10,399,905	10,399,905	10,325,076	(74,829)
Property tax - prior year	65,000	65,000	49,027	(15,973)
Taxes - other	72,000	72,000	78,933	6,933
In lieu of tax payments	15,050	15,050	595	(14,455)
Interest and penalty on delinquent taxes	30,000	30,000	23,685	(6,315)
Local sales tax	4,250,000	4,250,000	4,164,749	(85,251)
Total county revenue	14,831,955	14,831,955	14,642,065	(189,890)
State Funds:				
Basic education program	13,731,000	13,731,000	13,752,000	21,000
Career ladder	180,000	180,000	176,278	(3,722)
Career ladder extended contract	66,000	66,000	52,045	(13,955)
On-behalf contribution OPEB	-	214,083	214,083	-
Other state funds	365,300	511,392	524,014	12,622
Total state funds	14,342,300	14,702,475	14,718,420	15,945
Federal Funds:				
Education of handicapped	-	173,079	173,079	-
Total federal funds received	-	173,079	173,079	-
Total Intergovernmental revenue	29,174,255	29,707,509	29,533,564	(173,945)
Charges for services				
Tuition - out-of-district students	40,000	40,000	30,093	(9,907)
Tuition summer school	255,000	255,000	239,090	(15,910)
Other Charges	28,000	28,000	40,628	12,628
Total charges for services	323,000	323,000	309,811	(13,189)
Other Revenue from Local Sources:				
Interest earnings	8,000	8,000	6,888	(1,112)
Facility rentals	35,000	35,000	38,877	3,877
Other	90,000	90,000	146,696	56,696
Total other revenues	133,000	133,000	192,461	59,461
Total Revenues	$ 43,266,456	$ 43,799,710	$ 43,666,839	$ (132,871)

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
Expenditures:	Original	Final	Actual	(Negative)
Regular Instruction:				
Principals and assistant principals	$ 1,548,376	$ 1,548,376	$ 1,523,073	$ 25,303
Supervisors	426,876	458,164	438,574	19,590
Teachers	15,678,095	15,221,440	15,613,802	(392,362)
Substitute teachers	300,000	307,450	293,473	13,977
Guidance personnel	705,909	705,909	678,927	26,982
Library personnel	472,742	472,742	462,492	10,250
Other salaries and wages	2,032,117	2,119,985	1,977,197	142,788
Career ladder program	185,000	185,000	122,478	62,522
Benefits	6,638,196	6,747,170	6,439,201	307,969
Contracted services and consultants	263,750	259,550	250,150	9,400
Travel - instructional personnel	2,750	2,750	2,293	457
Instructional materials and supplies	743,404	766,755	709,284	57,471
Other	65,790	76,978	61,729	15,249
Total regular instruction	29,063,005	28,872,269	28,572,673	299,596
Special Needs Instruction				
Supervisor	75,276	75,276	74,347	929
Teachers	2,644,408	2,694,408	2,412,123	282,285
Psychological personnel	659,878	659,878	586,184	73,694
Substitute teachers	50,000	50,000	60,571	(10,571)
Other personnel	653,618	653,618	654,122	(504)
Career ladder	29,200	29,200	15,691	13,509
Contracts	343,000	341,206	321,469	19,737
Instruction materials and supplies	31,000	93,153	44,689	48,464
Benefits	1,327,417	1,350,137	1,246,796	103,341
Other	8,300	23,300	15,432	7,868
Total special needs instruction	5,822,097	5,970,176	5,431,424	538,752
Attendance and Health:				
Supervisor and other wages	275,379	275,379	270,813	4,566
Career ladder program	13,000	13,000	12,000	1,000
Benefits	117,602	117,602	101,982	15,620
Supplies and materials	6,900	6,900	5,630	1,270
Other	4,930	4,930	3,458	1,472
Total attendance and health	417,811	417,811	393,883	23,928
Transportation:				
Bus drivers and supervisors	852,091	852,091	837,936	14,155
Other salaries and wages	79,586	79,586	76,940	2,646
Benefits	410,814	410,814	360,437	50,377
Repairs and maintenance	100,500	105,221	115,276	(10,055)
Contracted services	6,039	6,039	6,004	35
Fuel	158,450	153,729	132,113	21,616
Insurance	21,000	21,000	21,392	(392)
Rent	5,200	5,200	2,700	2,500
Other	11,940	11,940	9,521	2,419
Total transportation	1,645,620	1,645,620	1,562,319	83,301

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

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, 2014

Expenditures, Continued:	Budgeted Amounts			Variance with Final Budget Positive (Negative)
Plant Operation and Maintenance:	Original	Final	Actual	
Supervisors	69,701	69,701	69,695	6
Custodial services	1,037,341	1,037,341	1,017,957	19,384
Other salaries and wages	353,724	353,724	299,690	54,034
Benefits	572,777	572,164	539,390	32,774
Repairs and maintenance	110,480	143,659	144,317	(658)
Other contracted services	114,000	114,000	105,277	8,723
Utilities	921,300	921,300	954,127	(32,827)
Insurance	94,675	91,000	90,872	128
Other materials and supplies	221,500	237,500	240,624	(3,124)
Other	2,750	2,750	1,216	1,534
Total plant operation and maintenance	3,498,248	3,543,139	3,463,165	79,974
Administration:				
Director of schools	183,532	183,532	183,091	441
Accounting	316,172	316,172	313,622	2,550
Other salaries and wages	903,287	920,887	979,695	(58,808)
Benefits	350,414	350,414	333,784	16,630
Travel	5,650	7,560	3,228	4,332
Communications	134,500	135,077	138,109	(3,032)
Board services	420,000	434,000	417,303	16,697
Trustee commission	504,000	504,000	522,694	(18,694)
Insurance	274,236	277,911	281,852	(3,941)
Professional services	39,000	39,000	33,377	5,623
Other contracted services	598,071	732,871	688,439	44,432
Materials and supplies	94,704	109,862	92,881	16,981
Data processing	18,000	18,000	18,653	(653)
On-behalf payments OPEB	-	214,083	214,083	-
Other	186,757	190,589	154,127	36,462
Debt service	8,000	133,385	126,183	7,202
Total administration	4,036,323	4,567,343	4,501,121	66,222
Total Expenditures	44,483,104	45,016,358	43,924,585	1,091,773
Excess revenues over (under) expenditures	(1,216,648)	(1,216,648)	(257,746)	958,902
Other Financing Sources (Uses):				
Sale of general capital assets	-	-	110	110
Total Other Financing Sources (Uses)	-	-	110	110
Net change in Fund Balance	(1,216,648)	(1,216,648)	(257,636)	959,012
Fund Balance, Beginning of Year	(286,215)	(1,123,118)	3,318,512	4,441,630
Fund Balance, End of Year	$ (1,502,863)	$ (2,339,766)	$ 3,060,876	$ 5,400,642

The notes to the financial statements are an integral part of this statement.See Independent Auditor's Report.

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

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

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

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 measureable 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.

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 using the purchase method in the fund financial statements and is expensed when purchased and adjustments are made to the beginning fund balance to record and report changes in inventory. 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.

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 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.

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.

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. Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose. Assigned fund balances includes all remaining amounts, except for negative balances that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

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 $13,821,703 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:

	2014	2013
General Fund	$ .7075	$ .7075
Debt Service	.27	.27

2.) Deposits and Investments

Deposits

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

At June 30, 2014, there were no amounts exposed to custodial credit risk.

Investments

At June 30, 2014, the District's reporting entity had the following investments:

	Fair Value/ Carrying Amount	Maturity	Rating
Local Government Investment Pool	$ 7,976,819	N/A	N/A
Less Liquid Investments (Cash equivalents)	(7,976,819)		
Total Investments per financial statements	$ -		

Interest Rate Risk:

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

Credit Risk:

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

Custodial Risk:

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

3.) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

Asset	July 1, 2013	Increases	Decreases	June 30, 2014
Capital assets not being depreciated:				
Land	$ 2,244,827	$ -	$ -	$ 2,244,827
Capital assets being depreciated:				
Buildings	56,805,314	-	-	56,805,314
Improvements	25,479,785	105,692	-	25,585,477
Equipment	8,534,904	832,414	(207,577)	9,159,741
Vehicles	2,502,044	215,827	(178,143)	2,539,728
Total	$ 95,566,874	$1,153,933	$(385,720)	$ 96,335,087

Accumulated Depreciation	July 1, 2013	Increases	Decreases	June 30, 2014
Buildings	$ 21,563,530	$1,131,396	$ -	$ 22,694,926
Improvements	6,149,677	1,385,157	-	7,534,834
Equipment	7,236,512	371,277	(207,577)	7,400,212
Vehicles	1,844,250	223,686	(178,143)	1,889,793
Total	$ 36,793,969	$3,111,516	$(385,720)	$ 39,519,765
Governmental Activities Net Capital Assets	$ 58,772,905			$ 56,815,322

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

Instruction	$ 291,951
Attendance and Health	72
Transportation	216,008
Plant Operation and Maintenance	2,546,634
Food Service	37,489
Community Service	85
Administration	19,277
Total	$3,111,516

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, 2014:

	July 1, 2013	Additions	Accreted Interest	Reductions	June 30, 2014	Due Within One Year
Governmental Activities:						
General Obligation Bonds	$ 46,617,809	$ -	$1,323,472	$4,320,000	$43,621,281	$2,727,074
Capital Lease Obligation	69,723	680,828	-	298,702	451,849	224,912
Compensated Absences	405,435	-	-	(96,540)	308,895	24,699
Total	$ 47,092,967	$680,828	$1,323,472	$4,522,162	$44,382,025	$2,976,685
Discounts/Premiums	231,098				192,055	
	47,324,065				44,574,080	
Net OPEB obligation	3,909,826				4,027,880	
	$51,233,891				$48,601,960	

Long term debt payable at June 30, 2014 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%	$24,071,281
2007 Series A limited tax school bonds issued August 2007 With interest ranging 4% to 4.75%	11,270,000
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%	2,780,000
	$43,621,281

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

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2014 including interest payments as follows:

Year	Bonds	Notes	Interest	Total
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	2,350,589	-	4,027,069	6,377,658
2020-2024	5,409,790	-	6,518,379	11,928,169
2025-2029	5,110,000	-	2,134,546	7,244,546
2030-2033	6,685,000	-	950,077	7,635,077
	$ 29,799,578	$ -	$28,878,304	$58,677,882
Accreted Interest	13,821,703		(13,821,703)	
	$ 43,621,281		$15,056,601	

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:

	Governmental Activities
Machinery and equipment	$680,828
Less accumulated depreciation	(113,470)
Total	$567,358

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

Year Ending June 30,	
2015	$224,912
2016	226,937
Total	$451,849

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.

5.) Receivables and Deferred Inflows of Resources

A summary of receivables at June 30, 2014 is as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Funds	Total
Property Taxes	$ 14,147,659	$ -	$ -	$ -	$ 14,147,659
Customer and Other	7,313	-	-	16,286	23,599
Other Governments	10,614,106	87,865	5,277,986	582,186	16,562,143
Total	$ 28,302,631	$ 87,865	$5,277,986	$598,472	$30,733,401

Deferred inflows of resources consists of 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)	$18,940,494	$18,940,494
Unlevied County Taxes (Unavailable)	10,015,811	10,015,811
County Collected and Shared (Unavailable)	-	458,368
Total	$28,956,305	$29,414,673

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, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at: *www.tn.gov/treasury/tcrs/Schools*.

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, 2014 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, 2014, 2013, and 2012 were $2,006,692, $1,942,652, and $1,919,491 and 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, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at *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, 2014 was 8.64% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Franklin Special School District is established and may be amended by the TCRS Board of Trustees.

6.) Pension Plan-(Continued)

Annual Pension Cost

For the year ending June 30, 2014, Franklin Special School District's annual pension cost of $622,226 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

Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
June 30, 2014	$622,226	100%	-
June 30, 2013	$600,504	100%	-
June 30, 2012	$586,087	100%	-

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 93.99 percent funded. The actuarial accrued liability for benefits was $19.08 million, and the actuarial value of assets was $17.94 million, resulting in an unfunded actuarial accrued liability (UAAL) of $1.15 million. The covered payroll (annual payroll of active employees covered by the plan) was $6.80 million, and the ratio of the UAAL to the covered payroll was 16.88 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 403(b). 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.

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, 2014. This amounted to $593,496.

	Due To:
Due From:	General Fund
Nonmajor Governmental Funds	$ 593,496
Total	$ 593,496

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.

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, 2014, were $190,736 and $23,347 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 $533,254, primarily to fund additional transportation expenditures, administrative costs, and plant operation and maintenance.

13.) Deficit Fund Balance

At June 30, 2014, the Food Service Fund, a nonmajor governmental fund, had a deficit fund balance of $194,805, due to low summer feeding and the Community Service Fund, a nonmajor governmental fund, had a deficit fund balance of $193,489, 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 State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO)

14.) Post Employment Healthcare Plan-(Continued)

plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

Special Funding Situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired higher education and local education agency (LEA) teachers in the plans. The state is not the sole employer for the LEA employees since some of these agencies provide additional direct subsidies and all provide implicit subsidies. However, the state is the sole contributor for the vast majority of higher education teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

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. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

Annual OPEB Cost and Net OPEB Obligation

ARC	$	878,000
Interest on NPO		156,393
Adjustment to the ARC		(152,365)
Annual OPEB Cost		882,028
Amount of contribution		(763,974)
Increase in NPO		118,054
Net OPEB obligation - 7/1/13		3,909,826
Net OPEB obligation - 6/30/14	$	4,027,880

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation At Year End
6/30/2014	Teachers Group	$ 882,028	86.62%	$ 4,027,880
6/30/2013	Teachers Group	$ 697,309	104.43%	$ 3,909,826
6/30/2012	Teachers Group	$ 689,626	81.21%	$ 3,940,748

14.) Post Employment Healthcare Plan-(Continued)

Funded Status and Funding Progress

The funding status of the plan as of July 1, 2013 was as follows (dollars in thousands):

Actuarial valuation date		7/1/2013
Actuarial accrued liability (AAL)	$	7,941
Actuarial value of plan asset	$	-
Unfunded actuarial accrued liability	$	7,941
Actuarial value of assets as a % of AAL	$	-
Covered payroll	$	21,458
UAAL as a percentage of covered payroll		37%

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, 2013, actuarial valuation for the Local Education plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially for the Local Education plans. The rate decreased to7 percent in fiscal year 2015, and then will be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. All rates include a 2.5 percent inflation assumption. The cost trend in the Medicare Supplement plan is 2 percent initially. The rate increases to 6 percent in fiscal year 2015 and decreases incrementally to 4.2 percent in fiscal year 2044. 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. Payroll is assumed to grow at a rate of 3 percent.

15.) Subsequent Events

Subsequent events were evaluated through October 29, 2014, 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, 2014

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	$17,937	$19,085	$1,148	93.99%	$6,797	16.88%
July 1, 2011	$15,495	$16,205	$ 711	95.61%	$6,360	11.61%
July 1, 2009	$11,995	$12,099	$ 104	99.14%	$6,472	1.61%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2010	$ -	$10,967	$10,967	0.00%	$25,127	43%
July 1, 2011	$ -	$ 6,107	$ 6,107	0.00%	$25,127	24%
July 1, 2013	$ -	$ 7,941	$ 7,941	0.00%	$21,458	37%

See Independent Auditor's Report.

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, 2014

	Special Revenues Funds			
Assets	Food Service Fund	Federal Projects Fund	Community Service Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	$ -	$ -	$ 25	$ 25
Accounts receivable	2,904	-	13,382	16,286
Due from other governments	68,225	452,308	61,653	582,186
Inventory	42,699	-	-	42,699
Total Assets	$ 113,828	$ 452,308	$ 75,060	$ 641,196
Liabilities				
Accrued payroll and other liabilities	$ 131,712	$ 204,016	$ 56,685	$ 392,413
Due to other funds	158,009	248,292	187,195	593,496
Advance of cafeteria charges	18,912	-	-	18,912
Advance of tuition	-	-	24,669	24,669
Total Liabilities	308,633	452,308	268,549	1,029,490
Fund Balances:				
Nonspendable:				
Inventory	42,699	-	-	42,699
Unassigned	(237,504)	-	(193,489)	(430,993)
Total Fund Balance	(194,805)	-	(193,489)	(388,294)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 113,828	$ 452,308	$ 75,060	$ 641,196

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

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

Nonmajor Governmental Funds

June 30, 2014

	Special Revenues Funds			
Revenues	Food Service Fund	Federal Projects Fund	Community Service Fund	Total Nonmajor Governmental Funds
Intergovernmental:				
USDA and cafeteria related funds	$ 1,186,153	$ -	$ -	$ 1,186,153
Federal instruction, learning center and safety funds	-	1,059,553	105,000	1,164,553
Federal education of the handicapped funds	-	908,907	-	908,907
Charges for services:				
Cafeteria charges	734,769	-	-	734,769
Tuition and fees	-	-	1,012,729	1,012,729
Other	109,866	-	31,671	141,537
Total Revenues	2,030,788	1,968,460	1,149,400	5,148,648
Expenditures				
Food service:				
Labor	727,868	-	-	727,868
Employee benefits	315,195	-	-	315,195
Food	879,163	-	-	879,163
Other Costs	105,880	-	-	105,880
Regular instruction:				
Labor	-	464,770	-	464,770
Employee benefits	-	122,273	-	122,273
Supplies and materials	-	235,510	-	235,510
Other costs	-	71,408	-	71,408
Special needs instruction:				
Labor	-	517,561	-	517,561
Employee benefits	-	255,498	-	255,498
Supplies and materials	-	9,571	-	9,571
Other Costs	-	109,119	-	109,119
Program Costs:				
Labor	-	32,648	749,068	781,716
Employee benefits	-	3,018	210,218	213,236
Other costs	-	147,084	94,844	241,928
Total Expenditures	2,028,106	1,968,460	1,054,130	5,050,696
Excess (Deficiency) of Revenues Over Expenditures	2,682	-	95,270	97,952
Net Change in Fund Balance	2,682	-	95,270	97,952
Fund Balance, Beginning of Year	(195,221)	-	(288,759)	(483,980)
Change in reserve for inventory	(2,266)	-	-	(2,266)
Fund Balance, End of Year	$ (194,805)	$ -	$ (193,489)	$ (388,294)

See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
Revenues:	Original	Final	Actual	(Negative)
Intergovernmental revenues				
USDA reimbursements	$ 885,000	$ 1,154,493	$ 1,168,947	$ 14,454
State matching	17,800	17,800	17,206	(594)
Total intergovernmental	902,800	1,172,293	1,186,153	13,860
Charges for services				
Student lunches	525,000	525,000	440,919	(84,081)
Adult lunches	60,000	60,000	52,785	(7,215)
Student breakfast	58,000	58,000	60,171	2,171
A-la-carte sales	210,000	210,000	180,894	(29,106)
Rebates and other	90,000	103,884	109,866	5,982
Total charges for services	943,000	956,884	844,635	(112,249)
Total Revenues	1,845,800	2,129,177	2,030,788	(98,389)
Expenditures:				
Food	630,860	947,430	879,163	68,267
Labor	641,840	705,944	727,868	(21,924)
Fringe benefits	274,500	274,500	315,195	(40,695)
Supplies	57,200	66,819	66,231	588
Transportation	9,000	9,000	10,126	(1,126)
Repairs and maintenance	12,000	12,000	13,305	(1,305)
Capital Outlay	3,000	3,000	-	3,000
Other	16,000	16,000	16,218	(218)
Total Expenditures	1,644,400	2,034,693	2,028,106	6,587
Excess (deficiency) revenues over expenditures (Net change in Fund Balance)	201,400	94,484	2,682	(91,802)
Fund Balance, Beginning of Year	408,102	(177,227)	(195,221)	(17,994)
Change in Reserve for Inventory	-	-	(2,266)	(2,266)
Fund Balance, End of Year	$ 609,502	$ (82,743)	$ (194,805)	$ (112,062)

See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
Revenues:	Original	Final	Actual	(Negative)
Intergovernmental revenues				
Title I	$ 440,830	$ 497,894	$ 456,024	$ (41,870)
Title II	104,741	112,568	64,454	(48,114)
Title III	47,214	51,746	39,887	(11,859)
IDEA - part B and preschool	880,286	925,697	908,907	(16,790)
First to the Top	-	529,803	499,188	(30,615)
Total Revenues	1,473,071	2,117,708	1,968,460	(149,248)
Expenditures:				
Regular instruction:				
Teachers	278,000	368,181	359,615	8,566
Other salaries	100,529	123,477	105,155	18,322
Benefits	98,976	129,345	122,273	7,072
Instructional supplies and materials	3,464	254,324	235,510	18,814
Other	8,554	89,754	71,408	18,346
Total regular instruction	489,523	965,081	893,961	71,120
Special needs instruction:				
Teachers and assistants	527,414	513,418	517,561	(4,143)
Benefits	275,680	271,209	255,498	15,711
Supplies	-	12,419	9,571	2,848
Contracted services	23,256	109,887	109,119	768
Total special needs instruction	826,350	906,933	891,749	15,184
Program costs:				
Teachers and assistants	37,240	37,598	32,648	4,950
Benefits	2,849	3,397	3,018	379
Supplies	1,050	16,050	12,693	3,357
Other	116,059	188,649	134,391	54,258
Total program costs	157,198	245,694	182,750	62,944
Total Expenditures	1,473,071	2,117,708	1,968,460	149,248
Excess (deficiency) revenues over expenditures	-	-	-	-
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	$ -	$ -	$ -	$ -

See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
Revenues:	Original	Final	Actual	(Negative)
Intergovernmental:				
Learning center grant	$ -	$ 105,000	$ 105,000	$ -
Charges for services				
Tuition and fees	1,085,902	1,085,902	1,012,729	(73,173)
Total charges for services	1,085,902	1,190,902	1,117,729	(73,173)
Other				
Miscellaneous	213,467	213,467	31,671	(181,796)
Total other	213,467	213,467	31,671	(181,796)
Total Revenues	1,299,369	1,404,369	1,149,400	(254,969)
Expenditures:				
Labor	748,252	803,822	749,068	54,754
Fringe benefits	205,539	218,142	210,218	7,924
Supplies	4,000	9,408	11,890	(2,482)
Food	35,000	58,727	50,641	8,086
Other	15,550	23,243	32,313	(9,070)
Total Expenditures	1,008,341	1,113,342	1,054,130	59,212
Excess (deficiency) revenues over expenditures	291,028	291,027	95,270	(195,757)
Net change in Fund Balance	291,028	291,027	95,270	(195,757)
Fund Balance, Beginning of Year	284,715	98,715	(288,759)	(387,474)
Fund Balance, End of Year	$ 575,743	$ 389,742	$ (193,489)	$ (583,231)

See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
Revenues:	Original	Final	Actual	(Negative)
Intergovernmental revenues				
Impact fees	$ 850,000	$ 850,000	$ 1,109,562	$ 259,562
Total intergovernmental revenues				
Other revenue from local sources:				
Interest earnings	1,200	7,562	7,987	425
Total Revenues	851,200	857,562	1,117,549	259,987
Expenditures:				
Current:				
Regular instruction	-	-	574,829	(574,829)
Principal on capital lease	279,823	240,120	173,941	66,179
Interest on capital lease	18,642	18,642	2,642	16,000
Total current expenditures	298,465	258,762	751,412	(492,650)
Capital outlay:	1,039,500	1,085,565	1,153,933	(68,368)
Total Expenditures	1,039,500	1,344,327	1,905,345	561,018
Excess (deficiency) revenues over expenditures	(188,300)	(486,765)	(787,796)	(301,031)
Other Financing Sources (Uses)				
Proceeds from capital leases	-	-	680,828	680,828
Sale of capital assets	-	-	3,684	3,684
Total Other Financing Sources (Uses)	-	-	684,512	684,512
Net Change in Fund Balance	(188,300)	(486,765)	(103,284)	383,481
Fund Balance, Beginning of Year	580,109	635,194	1,017,260	382,066
Fund Balance, End of Year	$ 391,809	$ 148,429	$ 913,976	$ 765,547

See Independent Auditor's Report.

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, 2014

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Special School District taxes:				
Property tax - current year	$ 5,102,791	$ 5,102,791	$ 5,083,310	$ (19,481)
Property tax - prior year	40,000	40,000	64,740	24,740
Property tax - pick-up	40,000	40,000	40,992	992
Interest and penalty on delinquent taxes	14,000	14,000	14,261	261
Total special school district taxes	5,196,791	5,196,791	5,203,303	6,512
Other revenue from local sources:				
Interest earnings	3,500	3,500	2,140	(1,360)
Total Revenues	5,200,291	5,200,291	5,205,443	5,152
Expenditures:				
Other:				
Trustee's commission	115,477	117,477	104,179	13,298
Debt Service:				
Principal on bonds, notes, and capital leases	4,320,000	4,320,000	4,320,000	-
Interest on bonds, notes, and capital leases	1,017,533	1,015,533	1,013,758	1,775
Total Debt Service	5,337,533	5,335,533	5,333,758	1,775
Total Expenditures	5,453,010	5,453,010	5,437,937	15,073
Excess (deficiency) revenues over expenditures	(252,719)	(252,719)	(232,494)	20,225
Fund Balance, Beginning of Year	2,881,204	1,903,904	2,231,884	327,980
Fund Balance, End of Year	$ 2,628,485	$ 1,651,185	$ 1,999,390	$ 348,205

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Capital Assets Used in the Operation of Governmental Funds

Schedule By Function and Activity

June 30, 2014

Function and Activity	Land	Buildings	Improvements	Equipment	Vehicles	Total
Instruction	$ -	$ -	$ -	$ 6,123,783	$ -	$ 6,123,783
Attendence and health	-	-	-	32,728	-	32,728
Transportation	-	-	-	52,437	2,388,820	2,441,257
Plant operation and maintenance	2,244,827	56,805,314	25,585,478	246,614	150,908	85,033,141
Community services	-	-	-	56,630	-	56,630
Food service	-	-	-	1,955,666	-	1,955,666
Administration	-	-	-	691,882	-	691,882
	$ 2,244,827	$ 56,805,314	$ 25,585,478	$ 9,159,740	$ 2,539,728	$ 96,335,087

See Independent Auditor's Report.

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, 2014

Function and Activity	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Instruction	$ 5,538,687	$ 792,673	$ 207,577	$ 6,123,783
Attendence and health	32,728	-	-	32,728
Transportation	2,359,611	196,948	115,302	2,441,257
Plant operation and maintenance	84,931,670	164,312	62,841	85,033,141
Community services	56,630	-	-	56,630
Food service	1,955,666	-	-	1,955,666
Administration	691,882	-	-	691,882
	$ 95,566,874	$ 1,153,933	$ 385,720	$ 96,335,087

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Cash and Cash Equivalents

All Funds

June 30, 2014

	Interest Rate	Amount
Major Funds:		
General Fund		
Checking and savings accounts	Various	$ 1,667,366
Local government investment pool	Various	5,683,308
Total General Fund		7,350,674
Debt Service Fund		
Checking and savings accounts	Various	30,840
Local government investment pool	Various	1,941,767
		1,972,607
Capital Projects Fund		
Checking and savings accounts	Various	524,279
Local government investment pool	Various	351,744
		876,023
Nonmajor Funds:		
Federal Projects Fund		
Checking and savings account		-
Food Service Fund		
Checking and savings accounts		-
Community Service Fund		
Cash		25
Total		$ 10,199,329

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Long-Term Debt Requirements

June 30, 2014

Fiscal Year	1999 Series	2007A Series	2009A Series	2009B Series	2012 Series	Capital Outlay Notes	Total Principal	Interest	Total Principal & Interest
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	$ 10,249,578	$ 11,270,000	$ 5,500,000	$ -	$ 2,780,000	$ -	29,799,578	28,878,304	$ 58,677,882
Accereted interest	13,821,703						13,821,703	(13,821,703)	
	$ 24,071,281						$ 43,621,281	$ 15,056,601	

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Program Name		Grantor Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures/ Uses
Title I	*	TN. Dept. of Education	84.010 A		$ 456,024
Title III, Part A		TN. Dept. of Education	84.365 A		39,887
IDEA Part B	*	TN. Dept. of Education	84.027	H027A1000052	1,022,560
IDEA Preschool	*	TN. Dept. of Education	84.173	H173A1000095	59,427
Title II, Part A		TN. Dept. of Education	84.367 A		64,454
First to the Top -ARRA	*	TN. Dept. of Education	84.395	S395A100032	499,188
HUSSC		TN. Dept. of Agriculture	10.574		1,500
USDA - Lunch		TN. Dept. of Agriculture	10.555		786,557
USDA - Breakfast		TN. Dept. of Agriculture	10.553		257,900
Non Cash Federal:					
USDA Commodity Supplemental Feeding		TN. Dept. of Agriculture	10.55		124,490
Total Federal Assistance					$ 3,311,987

* Major Program

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Federal and State Financial Assistance Programs

For the Year Ended June 30, 2014

Program Name	Grantor Agency	Federal CFDA Number	Pass-Through Entity Identifying Number	Balance July 1, 2013	Receipts	Expenditures/ Uses	Balance June 30, 2014
Federal Program:							
Title I	* TN. Dept. of Education	84.010 A		$ (125,380)	$ 458,700	$ 456,024	$ (122,704)
Title III, Part A	TN. Dept. of Education	84.365 A		(2,761)	36,075	39,887	(6,573)
IDEA Part B	* TN. Dept. of Education	84.027	H027A100052	(227,536)	1,024,316	1,022,560	(225,780)
IDEA Preschool	* TN. Dept. of Education	84.173	H173A100095	(4,285)	56,872	59,427	(6,840)
Title II, Part A	TN. Dept. of Education	84.367 A		(20,718)	78,667	64,454	(6,505)
First to the Top- ARRA	* TN. Dept. of Education	84.395	S395A100032	(134,812)	550,094	499,188	(83,906)
USDA - Lunch	TN. Dept. of Agriculture	10.555		(48,375)	782,078	786,557	(52,854)
USDA - Breakfast	TN. Dept. of Agriculture	10.553		(11,785)	256,299	257,900	(13,386)
HUSSC	TN Dept. of Agriculture	10.574		(500)	1,500	1,500	(500)
Non Cash Federal:							
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.55		-	124,490	124,490	-
Total Federal Assistance				$ (576,152)	$ 3,369,091	$ 3,311,987	$ (519,048)
State Grants:		State Number					
Lottery for Pre K/Pre K Pilot	TN. Dept. of Education	N/A		$ (112,262)	$ 270,652	$ 275,827	$ (117,437)
Lottery for Education After School	TN. Dept of Education	N/A		(57,832)	101,179	105,000	(61,653)
Coordinated School Health Grant	TN. Dept of Education	N/A		(23,237)	89,615	80,000	(13,622)
Safe Schools Act of 1998	TN. Dept of Education	N/A		(13,934)	14,800	17,566	(16,700)
SSMS	TN. Dept of Education	N/A		-	9,924	9,924	-
Tech Fund	TN. Dept of Education	N/A		-	125,385	125,385	-
Conn Fund	TN. Dept of Education	N/A		-	4,755	4,755	-
BEP	TN. Dept of Education	N/A		-	13,752,000	13,752,000	-
Child Nutition - State Match	TN. Dept of Education	N/A		-	17,206	17,206	-
Extended Contracts	TN. Dept. of Education	N/A		16,546	52,045	58,261	10,330
Career Ladder	TN. Dept. of Education	N/A		(8,527)	176,278	175,457	(7,706)
Total State Assistance				$ (199,246)	$ 14,613,839	$ 14,621,381	$ (206,788)

Note: Brackets signify a receivable.
* Major Program

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Surety Bond and Insurance Coverage

June 30, 2014

Insurance Company	Type of Insurance	Amount	Coverage
The Ohio Casualty Insurance Co.	Public Official Bond	$ 1,143,081	Director of Schools
Wright Specialty Insurance Co.	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
Wright Specialty Insurance Co.	Property Coverage:		
$1,000 Deductible Per Occurrence	Blanket Building & Contents	136,921,000	Limit All Locations
	Valuable Papers & Records	250,000	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
5% Deductible	Earthquake	1,000,000	Per Occurrence & Annual Aggregate
$500 Deductible	EDP- Hardware & Software $250,000 and over	5,130,026	Per Occurrence & Annual Aggregate
$25,000 Deductible	Flood	1,500,000	Per Occurrence & Annual Aggregate
Wright Specialty Insurance Co.	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	
$1,000 Deductible	Law Enforcement Professional Liability	1,000,000	Per Occurrence & Annual Aggregate
Wright Specialty Insurance Co.	Automobile Liability & Physical Damage	1,000,000	Bodily Injury & Property Damage Liability Combined Per Occurrence
$500 Comprehensive Deductible Per Occurrence			
$1,000 Collision Deductible- Buses	Uninsured Motorist	1,000,000	Per Occurrence for Bodily Injury 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

See Independent Auditor's Report.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Principal Officials

June 30, 2014

Name	Title	
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	*
Allena Bell	Member, Board of Education	*
Robin Newman	Member, Board of Education	*
David L. Snowden, Ph.D.	Director of Schools	**

* Elected at-Large
** Appointed

See Independent Auditor's Report.

OTHER REPORTS

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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, 2014, 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 29, 2014.

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.

Matlock Clements, P.C.

October 29, 2014

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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, 2014. 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, 2014.

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.

Matlock Clements, P.C.

October 29, 2014

FRANKLIN SPECIAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2014

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 major federal programs:	
• 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 # 84.010A Title I
- 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.