

**THE BOARD OF PUBLIC EDUCATION FOR THE CITY OF SAVANNAH AND
THE COUNTY OF CHATHAM, GEORGIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

INTRODUCTION

Our discussion and analysis of the financial performance of the Board of Public Education for the City of Savannah and the County of Chatham provides an overview of the school district's financial activities for the fiscal year ended June 30, 2014. The intent of this management discussion and analysis is to look at the District's financial performance as a whole; readers should also review the transmittal letter, financial statements and notes to the financial statements to enhance their understanding of the District's financial performance.

The basic financial statements contain three components:

- 1) District-wide financial statements including the Statement of Net Position and the Statement of Activities which provide a broad, long-term overview of the District's finances,
- 2) Fund financial statements, including the balance sheets, that provide a greater level of detail of revenues and expenditures and focus on how well the District has performed in the short term in the most significant funds, and
- 3) Notes to the financial statements.

This report presents the financial highlights for last year and contains other supplementary information.

OVERALL ANALYSIS

The District is the tenth largest school district in the state of Georgia, serving 37,235 students with a general fund budget of \$324 million. Three primary factors affected the district's financial operations during the year: increased enrollment, major school construction financed by ESPLOST, and a relatively flat tax digest. Overall, revenues were higher and expenses were lower than anticipated at the beginning of the year. The District responded well to the economic crisis and its overall financial position remains strong.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- ❖ On the district-wide financial statements:

- Total net position of the District increased from \$570,367,037 at June 30, 2013 to \$632,746,262, an increase of \$62,379,225, or 10.94%.
 - Total revenues increased \$33,506,173 from \$412,762,497 in fiscal year 2013 to \$446,268,670 in fiscal year 2014, or 8.12%.
 - Total expenses increased \$6,623,743 from \$377,265,702 in fiscal year 2013 to \$383,889,445 in fiscal year 2014, or 1.76%.
- ❖ On the fund financial statements:
- Ending fund balances of the District increased from \$111,954,582 at June 30, 2013 to \$148,326,918 at June 30, 2014, an increase of \$36,372,336 or 32.49%.
 - In the General Fund, total fund balance increased from \$29,211,597 at June 30, 2013 to \$37,674,367 at June 30, 2014, an increase of \$8,462,770 or 28.97%.
 - Total General Fund actual revenues were \$2,860,520, or 0.91%, more than budgeted revenues.
 - Total General Fund actual expenditures were \$10,821,026, or 3.44%, less than budgeted expenditures.

OVERVIEW OF DISTRICT-WIDE FINANCIAL STATEMENTS

The district-wide financial statements are designed to provide readers with a broad overview of the school district's finances in a manner similar to a private sector business. The Statement of Net Position and the Statement of Activities provide information about the activities of the school district as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets, liabilities and deferred outflows and inflows of resources using the accrual basis of accounting. This basis of accounting includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows and inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences.)

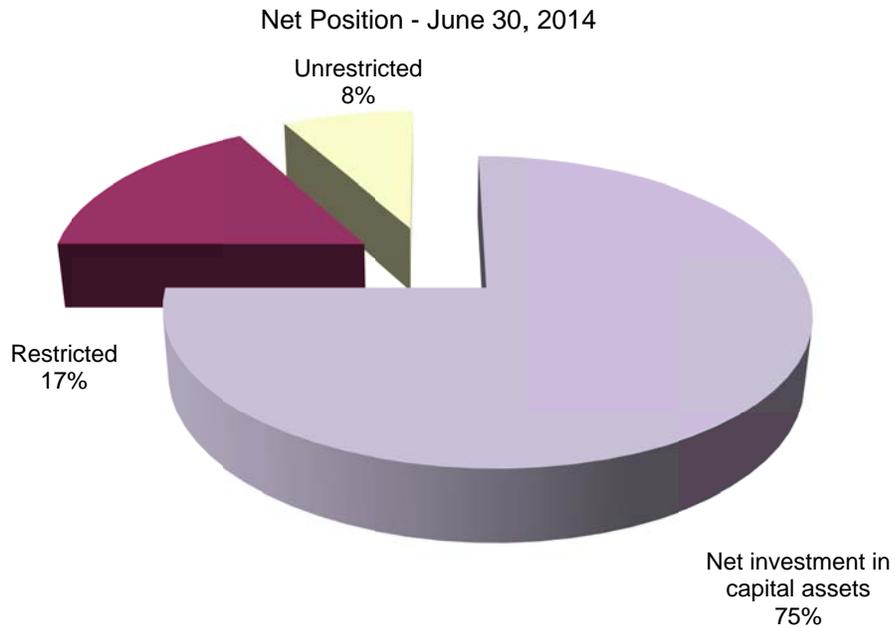
The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues. The governmental activities of the District include instruction, support services, food services, and interest

on long-term debt. The district-wide financial statements can be found on pages D-1 to D-2 of this report.

Financial Analysis of the District as a Whole

All of the District’s services are reported in the district-wide financial statements, including instruction, pupil services, instructional services, educational media services, general administration, business administration, school administration, pupil transportation, maintenance and operations, central support services, other support services, food services, and interest on long-term debt. Property taxes, and operating grants and contributions finance most of these activities. Additionally, all capital and debt financing activities are reported here.

Statement of Net Position	Governmental Activities			
	FY 2014	FY 2013	Change	% Change
Current assets	\$ 225,521,452	\$ 185,562,604	\$ 39,958,848	21.53%
Capital assets, net	535,646,723	515,646,083	20,000,640	3.88%
Total assets	761,168,175	701,208,687	59,959,488	8.55%
Current liabilities	61,878,474	57,283,625	4,594,849	8.02%
Noncurrent liabilities	66,029,234	72,965,714	(6,936,480)	-9.51%
Total liabilities	127,907,708	130,249,339	(2,341,631)	-1.80%
Total deferred inflows of resources	514,205	592,311	(78,106)	-13.19%
Net position				
Net investment in capital assets	475,251,581	449,292,417	25,959,164	5.78%
Restricted	107,944,463	81,785,005	26,159,458	31.99%
Unrestricted	49,550,218	39,289,615	10,260,603	26.12%
Total net position	\$ 632,746,262	\$ 570,367,037	\$ 62,379,225	10.94%



Current assets increased because property tax collections were better than anticipated, and because funds were accumulated to pay future construction costs.

Capital assets, net of depreciation, increased because of the four new/replacement schools under construction and two schools in design.

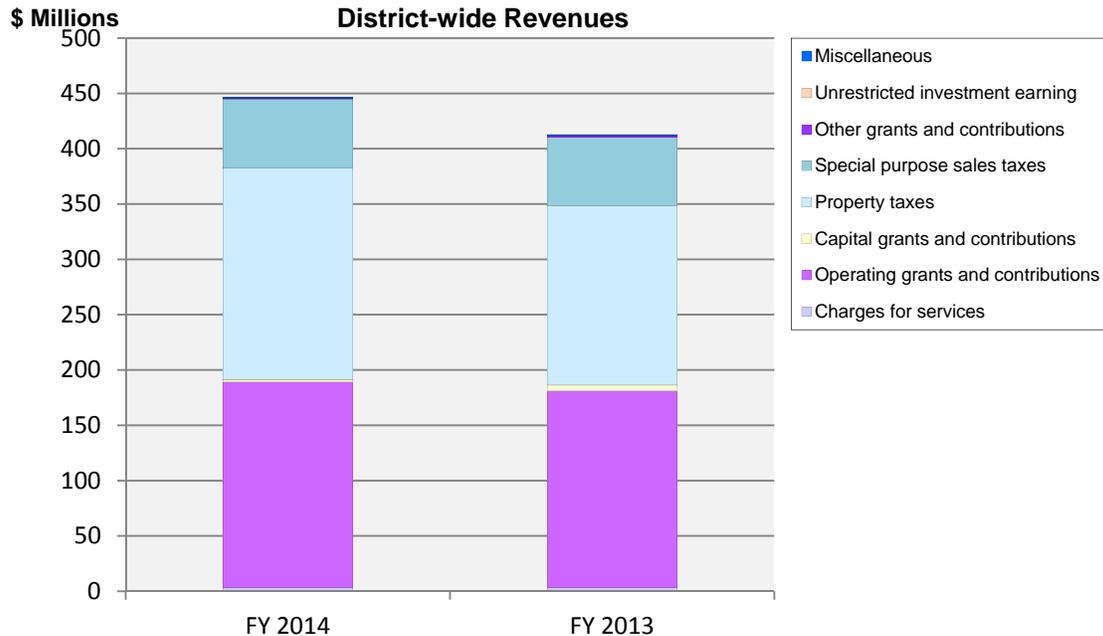
Current liabilities increased due to an increase in outstanding construction contracts as ESPLOST2 projects are under construction.

Long-term liabilities decreased due to the net effect of scheduled payments, new capital leases for purchases of buses, and decreases in compensated absences.

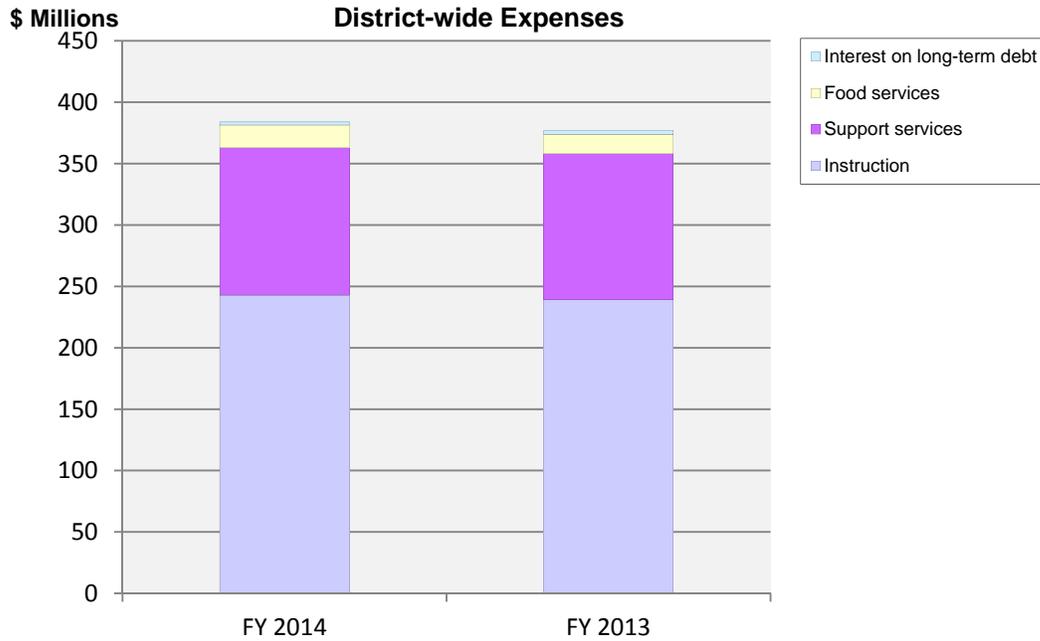
Deferred inflows of resources decreased because summer programs occurred earlier in the summer relative to the fiscal year-end.

Statement of Activities

	Governmental Activities			
	FY 2014	FY 2013	Change	% Change
Revenues:				
Program revenues:				
Charges for services	\$ 3,106,351	\$ 3,170,409	\$ (64,058)	-2.02%
Operating grants and contributions	186,374,254	178,297,843	8,076,411	4.53%
Capital grants and contributions	1,806,753	4,774,866	(2,968,113)	-62.16%
General revenues:				
Property taxes	191,141,803	162,589,403	28,552,400	17.56%
Special purpose sales taxes	62,508,489	61,919,576	588,913	0.95%
Other grants and contributions	853,907	1,066,119	(212,212)	-19.91%
Unrestricted investment earnings	126,105	132,012	(5,907)	-4.47%
Miscellaneous	351,008	812,269	(461,261)	-56.79%
Total revenues	446,268,670	412,762,497	33,506,173	8.12%
Expenses:				
Instruction	242,849,674	238,986,578	3,863,096	1.62%
Support services	120,455,041	119,101,718	1,353,323	1.14%
Food services	18,079,744	16,013,471	2,066,273	12.90%
Interest on long-term debt	2,504,986	3,163,935	(658,949)	-20.83%
Total expenses	383,889,445	377,265,702	6,623,743	1.76%
Change in net position	62,379,225	35,496,795	26,882,430	75.73%
Net position - beginning	570,367,037	534,870,242	35,496,795	6.64%
Net position - ending	\$ 632,746,262	\$ 570,367,037	\$ 62,379,225	10.94%



Total revenues increased \$33,506,173, or 8.12%. Operating grants and contributions increased primarily as a result of continued increased enrollment. Property taxes increased following an increase in the millage rate.

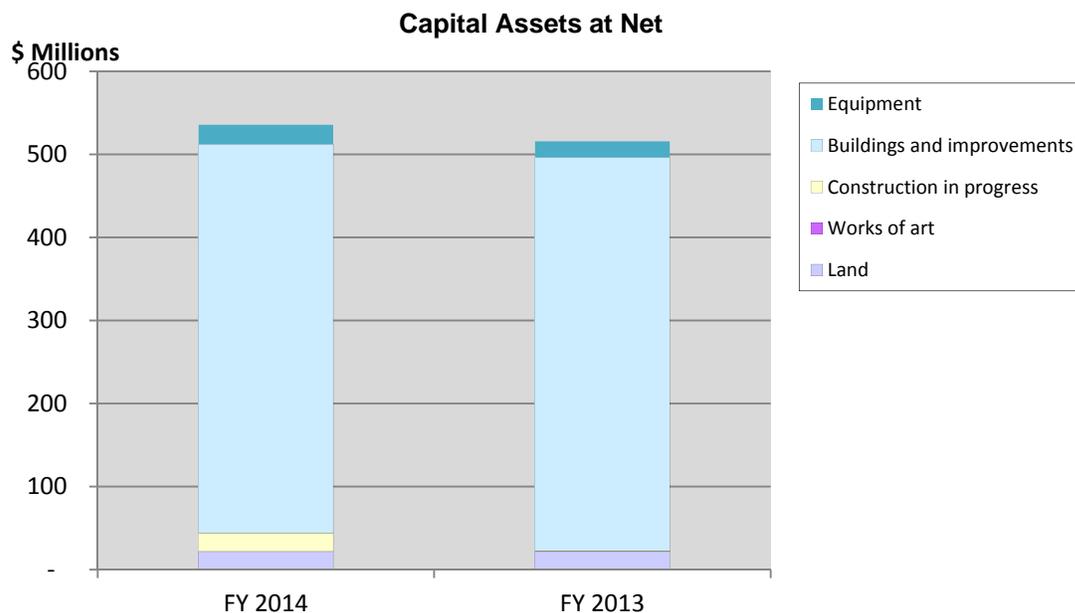


Total expenses increased \$6,623,743 or 1.76%. Expenses increased in Instruction, Support services, and Food services, as necessary to support the 10th day enrollment increase of 784 students.

Capital Assets

At June 30, 2014, the District had \$535,646,723 invested in capital assets, including land, works of art, construction in progress, buildings and improvements, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$20,000,640, or 3.88% from last year.

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Change	% Change
Land	\$ 21,767,264		\$ (543)	\$ 21,766,721	\$ (543)	0.00%
Works of art	52,700			52,700	-	N/A
Construction in progress	563,121	32,152,903	(10,346,907)	22,369,117	21,805,996	3872.35%
Buildings and improvements	610,966,507	6,561,050		617,527,557	6,561,050	1.07%
Equipment	96,163,793	13,377,958	(4,689,793)	104,851,958	8,688,165	9.03%
Total capital assets	729,513,385	52,091,911	(15,037,243)	766,568,053	37,054,668	5.08%
Less accumulated depreciation:						
Buildings and improvements	(137,080,500)	(12,364,642)		(149,445,142)	(12,364,642)	9.02%
Equipment	(76,786,802)	(8,994,852)	4,305,466	(81,476,188)	(4,689,386)	6.11%
Total accumulated depreciation:	(213,867,302)	(21,359,494)	4,305,466	(230,921,330)	(17,054,028)	7.97%
Total capital assets, net	\$ 515,646,083	\$ 30,732,417	\$ (10,731,777)	\$ 535,646,723	\$ 20,000,640	3.88%



Capital assets, net of depreciation, increased primarily in the area of construction in progress with four new/replacement schools under construction and two in design by year end. See Note II.D. for additional information on Capital assets.

Long-term Debt

As of June 30, 2014, the District had \$66,029,234 in total long-term debt. This represents a decrease of \$6,936,480, or 9.51%, from the previous year, due to the net effect of scheduled payments, new capital leases for purchases of buses, and decreases in compensated absences. Additional information on the District's long-term debt can be found in Notes II.E. and II.F.

OVERVIEW OF FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds (internal service), and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages D-4 and D-6, respectively.

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. The majority of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds financial statements provide a detailed short-term view of the District's operations and the services it provides.

In accordance with generally accepted accounting principles, the District maintains many individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General and ESPLOST Funds, each of which is considered to be a major fund. Also, data from the other non-major governmental funds are combined into a single aggregated column presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements beginning on page F-1 in this report.

The basic governmental fund financial statements can be found on pages D-3 through D-6 of this report.

Proprietary funds. Proprietary funds are used to account for ongoing organizations and activities which are similar to those found in the private sector. The District's proprietary funds are the internal service funds and are used to report activities that provide services for its other programs and activities. The District's internal service funds consist of the Workers' Compensation Fund, the Employee Dental Fund, and the Unemployment Compensation Fund.

Fiduciary funds. Agency funds, a type of fiduciary funds, are used to account for assets held by the District on behalf of other parties. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations. The District's fiduciary funds consist of the Flex One Fund and the Student Activity Fund.

Revenues and Other Financing Sources – Fund Financial Statements

The following schedule presents a summary of the governmental funds revenues, and other financing sources for the period ended June 30, 2014 as compared to June 30, 2013. It also depicts the amount and percentage increases and decreases in relation to prior year amounts.

	FY 2014	FY 2013	2014		
			Percent of Total	Change	% Change
Property taxes	\$ 191,449,600	\$ 165,224,228	40.77%	\$ 26,225,372	15.87%
Sales taxes	62,508,489	61,919,576	13.31%	588,913	0.95%
State sources	134,611,627	131,018,556	28.67%	3,593,071	2.74%
Federal sources	53,682,246	51,303,323	11.43%	2,378,923	4.64%
Charges for services	2,707,196	2,851,544	0.58%	(144,348)	-5.06%
Local and other funds	2,599,580	2,861,462	0.55%	(261,882)	-9.15%
Subtotal	447,558,738	415,178,689	95.31%	32,380,049	7.80%
Other financing sources	22,027,513	16,808,248	4.69%	5,219,265	31.05%
Total	\$ 469,586,251	\$ 431,986,937	100.00%	\$ 37,599,314	8.70%

Expenditures and Other Financing Uses – Fund Financial Statements

The following schedule represents a summary of the governmental funds expenditures for the fiscal year ended June 30, 2014 and 2013, and the percentage increase and decrease in relation to prior year amounts.

			2014		
	FY 2014	FY 2013	Percent of Total	Change	% Change
Current					
Instruction	\$ 225,380,888	\$ 218,730,893	52.03%	\$ 6,649,995	3.04%
Pupil services	17,129,496	16,707,099	3.95%	422,397	2.53%
Instructional services	8,957,363	9,732,055	2.07%	(774,692)	-7.96%
Educational media services	5,685,663	5,547,990	1.31%	137,673	2.48%
General administration	6,771,907	6,159,347	1.56%	612,560	9.95%
School administration	20,218,882	19,280,228	4.67%	938,654	4.87%
Business administration	5,290,420	5,343,083	1.22%	(52,663)	-0.99%
Maintenance and operations	25,929,384	24,322,533	5.99%	1,606,851	6.61%
Pupil transportation	20,848,013	19,278,331	4.81%	1,569,682	8.14%
Central support services	4,299,605	3,693,056	0.99%	606,549	16.42%
Other support services	2,740,038	6,673,632	0.63%	(3,933,594)	-58.94%
Food service operations	18,069,430	16,001,307	4.17%	2,068,123	12.92%
Debt service:					
Principal retirement	8,842,127	8,053,633	2.04%	788,494	9.79%
Interest and fiscal charges	2,778,078	3,028,454	0.64%	(250,376)	-8.27%
Capital outlay	41,685,780	52,572,736	9.62%	(10,886,956)	-20.71%
Subtotal	414,627,074	415,124,377	95.71%	(497,303)	-0.12%
Other financing uses	18,586,841	12,294,158	4.29%	6,292,683	51.18%
Total	<u>\$ 433,213,915</u>	<u>\$ 427,418,535</u>	<u>100.00%</u>	<u>\$ 5,795,380</u>	<u>1.36%</u>

Analysis of Major Funds

The Board has two major funds: the General Fund and the ESPLOST Fund. The General Fund is the general operating fund of the Board and is used to account for all financial resources except those required to be accounted for in another fund. The ESPLOST Fund is used to account for financial resources received from the Educational Special Purpose Local Option Sales Tax to finance construction of new schools and other capital projects.

General Fund

As of June 30, 2014, total fund balance in the General Fund was \$37,674,367. As a result of operations in fiscal year 2014, the total fund balance increased by \$8,462,770. The millage rate for maintenance and operation of schools was increased for calendar year 2013 (fiscal year 2014), providing additional local property tax revenues. Increased state revenue resulted from continued enrollment growth. Nearly every expenditure category increased, which reflects the additional resources needed to support the enrollment growth the district has experienced over the last several years. In addition, nearly every expenditure category was under budget, reflecting the efforts staff has taken to ensure that funds are well-spent.

ESPLOST Fund

As of June 30, 2014, total fund balance in the ESPLOST Fund was \$104,403,829, all of which was restricted. As a result of operations in fiscal year 2014, the total fund balance increased by \$25,767,125. During fiscal year 2014, funds were accumulated as construction began on the first phase of new/replacement school projects in ESPLOST2. In addition, the procurement and contract award process for the second phase was completed, with those schools now in design.

Notes to Financial Statements

The Notes to Financial Statements follow the statements in the report and complement the financial statements by describing qualifying factors and changes throughout the fiscal year.

BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States for the General Fund, Debt Service Fund, Special Revenue Funds, and Other Funds. All annual unencumbered appropriations lapse at fiscal year-end.

- In June 2013, the Board adopted a budget for fiscal year 2014 that reflected total resources including appropriations for expenditures and other uses of \$318,421,922 for the General Fund.
- Actual General Fund revenues for fiscal year 2014 were \$318,607,309 and actual General Fund expenditures were \$303,756,560.
- Actual revenues were 0.91% more than budgeted revenues and actual expenditures were 3.44% less than budgeted expenditures.
- The original budget adopted by the District included the use of \$5.5 million of fund balance. During the year, the budget was amended several times, primarily to record the Midterm Adjustment to the Quality Basic Education state revenue, to decrease the fund balance use in the original budget as adopted, to provide additional funds for student transportation, to properly record Title Ad Valorem Tax Revenue proceeds, to use fund balance to establish a capital project for the Port Wentworth Elementary School Reconfiguration Project, to record state bond revenue for the purchase of buses, to record Math and Science Teacher Supplements, and to record an operating transfer to the Pre-K fund. The final budget included fund balance use of \$4.1 million. Actual revenues were \$2.9 million over budget and actual expenditures were \$10.8 million under budget. Other financing sources and uses were \$1.1 under budget. This resulted in an addition to fund balance of \$8.5 million.

NEXT YEAR'S BUDGET AND RATES

- In June 2014, the Board adopted a balanced budget for fiscal year 2015 that reflected total resources including appropriations for expenditures and other uses of \$334,173,899 for the General Fund.
- The fiscal year 2015 budget was based on a tax rate for maintenance and operation of schools (M&O) of 15.881 mills.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Additional details can be requested by mail at the following address:

Division of Finance
Savannah-Chatham County School District
208 Bull Street, Room 302
Savannah, GA 31401