FORSYTH COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

INTRODUCTION

Our discussion and analysis of the Forsyth County School District's ("School District") financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2016 are as follows:

- On the district-wide financial statements, the assets of the School District exceeded liabilities by $242.7 million.

- The School District had $407.7 million in expenses relating to governmental activities; only $247.5 million of these expenses are offset by program specific charges for services, grants and contributions. General revenues (primarily property and sales taxes) of $229 million were adequate to provide for these programs.

- As stated above, general revenues accounted for $229 million or 48% of all revenues totaling $476.5 million. Program specific revenues in the form of charges for services, grants and contributions accounted for the remaining revenues.

- Net position for the School District rose by $68.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; management's discussion and analysis, the basic financial statements and supplementary information. The basic financial statements include two levels of statements that present different views of the School District. These include the district-wide and fund financial statements.

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

The fund financial statements focus on individual parts of the School District, reporting the School District's operation in more detail. The Governmental Funds statements disclose how basic services are financed in the short-term as well as what remains for future spending. The fund financial statements reflect the School District's major funds. In the case of the Forsyth County School District, the General Fund, Capital Projects Fund, Debt Service Fund and the Federal Programs Fund are reported as major funds.

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

District-Wide Statements

The District-Wide financial statements are basically a consolidation of all of the District's operating funds into one column called governmental activities. In reviewing the District-Wide financial statements, a reader might ask the question, are we in a better financial position than last year? The Statement of Net Position and the Statement of Activities provides the basis for answering this question. These financial statements include all of the School District's assets and liabilities and use the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The Statement of Net Position and the Statement of Activities reflects the School District's governmental activities.

Fund Financial Statements

The School District uses many funds to account for a multitude of financial transactions during the fiscal year. However, the fund financial statements presented in this report provide separate columns of detailed information about only the School District's major funds.

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Table 1
Net Position

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2016
ASSETS		
Current and other assets	$ 209,814,253	$ 234,667,747
Capital assets	620,801,610	742,591,357
Total assets	830,615,863	977,259,104
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refunding	7,765,439	6,789,878
Pension related items	32,350,283	45,086,305
Total deferred outflows of resources	40,115,722	51,876,183
LIABILITIES		
Current liabilities	35,619,725	35,183,540
Long-term liabilities	585,698,341	725,833,187
Total liabilities	621,318,066	761,016,727
DEFERRED INFLOWS OF RESOURCES		
Pension related items	75,566,155	25,406,475
NET POSITION		
Net investment in capital assets	326,626,722	383,035,788
Restricted	70,220,186	56,421,413
Unrestricted	(222,999,544)	(196,745,116)
Total net position	$ 173,847,364	$ 242,712,085

Table 2
Change in Net Position

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2014
Revenues		
Program revenues:		
Charges for services	$ 10,043,652	$ 11,161,745
Operating grants and contributions	215,441,746	217,562,396
Capital grants and contributions	650,852	18,757,344
General revenues:		
Taxes:		
Property taxes		
For maintenance and operations	127,063,701	151,689,639
For debt service	19,536,606	22,278,753
Sales taxes	34,337,071	35,197,960
Other taxes:		
Intangible taxes	5,418,825	6,102,996
Real estate transfer taxes	1,937,627	2,256,589
Title ad valorem tax	8,073,358	9,659,511
Unrestricted investment earnings	224,522	413,286
Other	1,359,489	1,463,108
Total revenues	424,087,449	476,543,327
Expenses		
Instruction	258,553,235	279,094,495
Support services:		
Pupil services	8,871,100	9,563,024
Improvement of instructional services	6,174,345	7,180,895
Educational media services	3,081,917	3,155,445
Federal grant administration	363,332	368,595
General administration	928,109	985,515
School administration	19,480,956	21,022,025
Business administration	1,895,038	2,208,290
Maintenance and operation of plant	25,793,744	27,173,956
Student transportation services	16,542,790	18,178,980
Central support services	6,374,179	7,114,502
Other support services	493,575	571,033
Food services operations	16,110,782	16,841,652
Community services operations	1,736,035	1,812,285
Interest on long-term debt	10,106,026	12,407,914
Total expenses	376,505,163	407,678,606
Change in net position	47,582,286	68,864,721
Net position, beginning of year	126,265,078	173,847,364
Net position, end of year	$ 173,847,364	$ 242,712,085

Governmental Activities

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

Table 3
Costs of Services

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2015	2016	2015	2016
Instruction	$ 258,553,235	$ 279,094,495	$ 88,044,706	$ 94,016,633
Support services:				
Pupil services	8,871,100	9,563,024	5,716,508	6,057,804
Improvement of instructional services	6,174,345	7,180,895	3,744,114	4,469,773
Educational media services	3,081,917	3,155,445	(2,152,081)	(2,582,015)
Federal grant administration	363,332	368,595	363,332	368,595
General administration	928,109	985,515	(3,753,469)	(4,004,533)
School administration	19,480,956	21,022,025	10,850,952	11,868,337
Business administration	1,895,038	2,208,290	1,858,026	2,153,992
Maintenance and operation of plant	25,793,744	27,173,956	12,759,529	13,554,054
Student transportation services	16,542,790	18,178,980	14,799,100	15,192,648
Central support services	6,374,179	7,114,502	6,191,366	6,917,765
Other support services	493,575	571,033	76,171	87,336
Food services operations	16,110,782	16,841,652	1,764,633	398,650
Community services operations	1,736,035	1,812,285	-	(709,832)
Interest on long-term debt	10,106,026	12,407,914	10,106,026	12,407,914
Total expenditures	$ 376,505,163	$ 407,678,606	$ 150,368,913	$ 160,197,121

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues and other financing sources of $633.5 million and total expenditures and other financing uses of $612.2 million.

Major Funds:

General Fund

The General Fund is the operating fund of the District. Revenue from state and federal sources accounted for 46% of the districts revenues. The other 54% is from local sources, primarily ad valorem taxes.

The student population of the district continues to grow. There was an increase in FTE of 1,836 when comparing state QBE allotment sheets for fiscal years 2015 and 2016. Overall state and federal funding rose by $15.3 million over the prior year.

Expenditures rose by $121.1 million over the prior year. The primary cause of the increase was increase capital outlay spending of $92.3 million. This was due to the construction of two new schools and the renovation of several existing schools. The maintenance and operations millage rate was increased from 16.3 mills to 17.3 mills.

Capital Projects Fund

The Capital Projects Fund is used to account for school construction and improvement projects. Special Purpose Local Option Sales Tax (SPLOST) made up the majority of the 2016 revenues. Those funds were transferred to the Debt Services Fund for the payment of bonds which were designated in the SPLOST referendum.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources and payments of principal and interest for general obligation bond issues of the District. Ad valorem taxes make up the majority of revenues in the Debt Services Fund. The Debt Services millage rate remained at 2.418 mills.

General Fund Budgeting Highlights

The School District's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2016, the School District amended its General Fund budget as needed. The School district uses site-based budgeting as a part of the budget process. The budgeting systems are designed to control total site budgets but provide flexibility for the site management.

For the General Fund, the budget basis revenues and other financing sources of $353.4 million were more than the original budgeted amounts of $346.2 million by $7.2 million.

Total budget basis actual total revenues had a $2.4 million favorable variance when compared to the final budgeted revenue total.

The budget basis actual expenditures of $341.1 million were more than the original budgeted amount of $335.2 million by $5.9 million.

The budget basis actual expenditures had a $2.8 million favorable variance when compared to the final budgeted expenditures.

Table 4
General Fund
Changes in Fund Balances – Budget and Actual

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
State sources	$ 179,970,510	$ 183,327,353	$ 183,574,544	$ 247,191
Federal sources	-	-	87,212	87,212
Local sources and other funds	166,260,483	166,968,969	169,060,236	2,091,267
On behalf payments	-	670,153	670,153	-
Total revenues	346,230,993	350,966,475	353,392,145	2,425,670
EXPENDITURES				
Current:				
Instruction	247,511,029	249,619,603	248,806,370	813,233
Support services:				
Pupil services	6,889,394	7,072,929	6,906,710	166,219
Improvement of instructional services	4,936,194	5,398,855	5,233,597	165,258
Educational media services	2,966,503	2,953,254	2,859,465	93,789
General administration	918,286	944,740	908,320	36,420
School administration	19,856,462	21,138,902	20,735,930	402,972
Business administration	2,096,191	2,191,808	2,180,691	11,117
Maintenance and operation of plant	27,122,365	28,198,574	27,127,712	1,070,862
Student transportation services	15,883,490	16,481,967	16,419,577	62,390
Central support services	6,940,360	7,005,011	6,993,992	11,019
Other support services	92,824	93,245	88,070	5,175
Food services operations	-	137,428	137,428	-
Debt service:				
Principal retirement	-	2,474,515	2,474,514	1
Interest and fixed charges	-	249,036	249,036	-
Total expenditures	335,213,098	343,959,867	341,121,412	2,838,455
Excess (deficiency) of revenues over (under) expenditures	11,017,895	7,006,608	12,270,733	5,264,125
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	99,750	99,750	175,002	75,252
Proceeds from capital lease		1,751,850	1,751,850	-
Transfers in	-	-	3,500,000	3,500,000
Transfers out	-	-	(576,669)	(576,669)
Total of other financing sources (uses)	99,750	1,851,600	4,850,183	2,998,583
Net change in fund balances	11,117,645	8,858,208	17,120,916	8,262,708
FUND BALANCES, beginning of year	36,755,634	36,755,634	36,755,634	-
FUND BALANCES, end of year	$ 47,873,279	$ 45,613,842	$ 53,876,550	$ 8,262,708

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At fiscal year ended June 30, 2016, the School District had $742.6 million invested in capital assets, all in governmental activities. Capital assets increased $121.8 million over the balance at June 30, 2015.

Note F reflects a summary of these balances net of accumulated depreciation.

Table 5
Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2016
Land	$ 96,384,643	$ 99,608,051
Land Improvements	21,545,442	20,010,011
Construction in Progress	27,553,473	133,089,809
Buildings	443,151,863	454,330,096
Furniture and Equipment	32,166,189	35,553,390
Total	$ 620,801,610	$ 742,591,357

Debt

At fiscal year ended June 30, 2016, the School District had $440.9 million in bonds outstanding and $3.9 million in capital leases outstanding.

Note G summarizes the School District's debt for general obligation bonds and capital leases.

Table 6
Debt Summary

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2016
General Obligation Bonds	$ 358,231,414	$ 440,942,179
Capital Leases	4,642,454	3,919,790
Total General Long-Term Debt	$ 362,873,868	$ 444,861,969

During FY 2016 there were two new bond issues.

One issue was for $100,830,000 in general obligation bonds. It was the second phase of the bonds approved in the 2014 bond resolution.

The second was for $25,320,000 in revenue bonds. Those bonds were issued by the Forsyth County Public Facilities Authority. The bond proceeds are to be used for the construction of the new Alliance Academy that will open in FY 2018.

At June 30, 2016, the School District's assigned bond ratings were "Aa1" and "AA+" as determined by Moody's Investors Services, Inc. and Standard and Poor's Rating Services.

CURRENT ISSUES

Currently known facts, decisions or conditions that are expected to have a significant effect on financial position or results of operations are as follows:

Funding Issues - The economy has shown an upturn and property values have begun to rise. In fiscal year 2016 the Board increased the M&O millage rate from 16.3 to 17.3 mills. This was primarily based on the systems' fund balance needs. The balance had been reduced during the downtown in the economy over the last several years rather than raising millage rates.

Also, two new schools will open in fiscal year 2017. Brandywine Elementary School and DeSana Middle School. Funds were needed to aid the in staffing needs of these new schools as well as for the staffing of the new Denmark High School and the new Alliance Academy which opens in FY 2018.

The State of Georgia has continued to impose austerity reductions to all school districts. In fiscal year 2016, the austerity reduction was $10.7 million, and in fiscal year 2017, it is will be reduced to only $3.9 million. Hopefully, it will be reduced to zero in fiscal year 2018.

Locally, the value of the ad valorem tax digest has finally shown growth in the last few years. For fiscal year 2016 the digest showed an increase of 18.88% and for fiscal year 2017 it shows an increase of 5.9%.

Capital Improvements - The School District plans capital improvements as future capital needs arise due to increased student population and facility repair and maintenance needs. Specific capital expenditure plans are formalized in conjunction with individual general obligation bond issues, anticipated annual receipts of capital outlay funds from the State of Georgia Department of Education and collections from the Special Purpose Local Option Sales Tax. The School District regularly monitors anticipated capital outlay needs.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Rick Gunn, Chief Financial Officer at Forsyth County School District, 1120 Dahlonega Highway, Cumming, Georgia 30040. You may also email your questions to Mr. Gunn at rgunn@forsyth.k12.ga.us.