

Charleston County School District

Financial Audit Presentation

Year Ended June 30, 2014

Charleston > excellence is our standard
County SCHOOL DISTRICT

Results • Access • Partnerships • Diversity



2014 FINANCIAL AUDIT

Charleston County School District

● OPINION

- The School District's responsibility:
 - Effective internal controls
 - Financial statements
- GF&H responsibility:
 - Opinion-reasonable assurance that financial statements are materially correct
- Issued unmodified opinion
 - **BEST OPINION THE SCHOOL DISTRICT CAN RECEIVE**



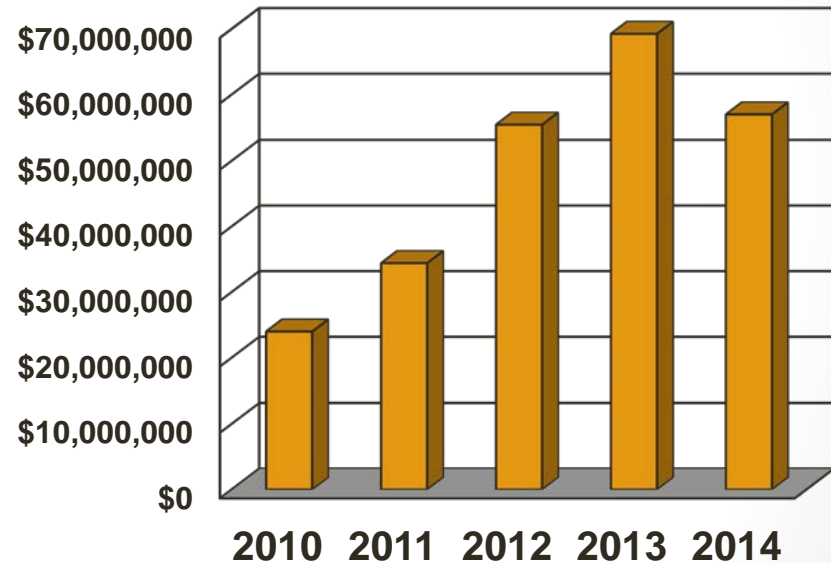
2014 FINANCIAL AUDIT

Charleston County School District

● General Fund

- Total fund balance of \$57 million decreased \$12.3 million from FY13 (the budget planned for a \$12.8 million decrease)
 - \$7.4 million in non-spendable primarily due to \$6.9M in prepaid items (prepaid property insurance and charter school prepayments)
 - \$10.4 million in assignments
 - \$2.9M in encumbrances
 - \$7.4M budget shortfall for FY2015
 - \$39.2 million is unassigned

GENERAL FUND



Fund Balance



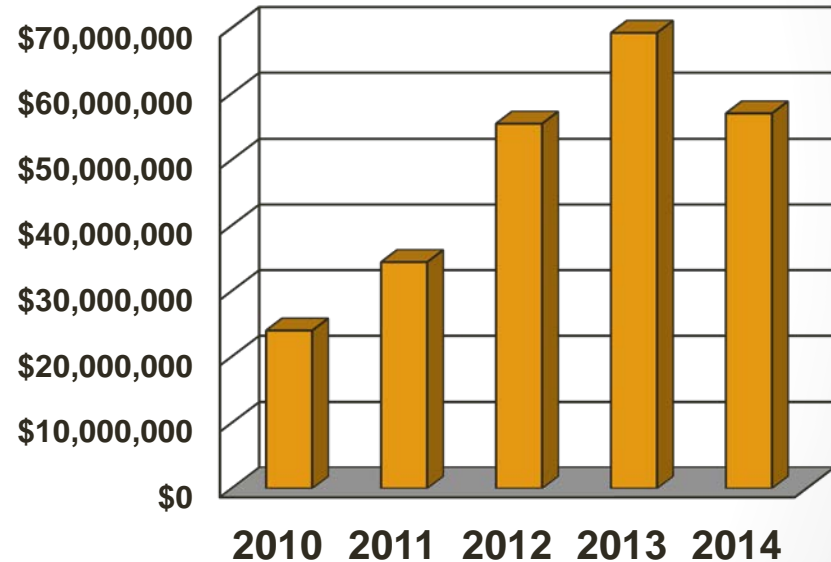
2014 FINANCIAL AUDIT

Charleston County School District

● General Fund

- Total fund balance of \$57 million decreased \$12.3 million from FY13 (the budget planned for a \$12.8 million decrease)
 - \$7.4 million in non-spendable primarily due to \$6.9M in prepaid items including \$4.5M in prepaid property insurance and \$2.4M in charter school prepayments
 - \$10.4 million in assignments
 - \$2.9M in encumbrances
 - \$7.4M budget shortfall for FY2015
 - \$39.2 million is unassigned

GENERAL FUND



Fund Balance



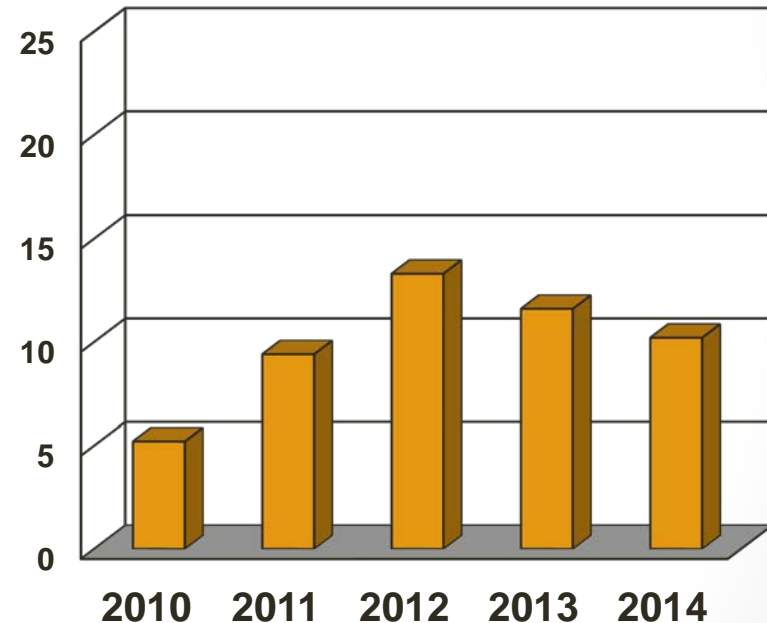
2014 FINANCIAL AUDIT

Charleston County School District

● General Fund

- Unassigned fund balance is \$39.2 million, which is 10.2% of 2014 actual expenditures and 9.7% of 2015 budgeted expenditures
- \$5.3 million decrease from the prior year
- GFOA recommends a minimum of 16.7% (two months)

GENERAL FUND



Unassigned Fund Balance as a %
of General Fund Expenditures



2014 FINANCIAL AUDIT

Charleston County School District

- Major Reasons To Maintain An Adequate Fund Balance:
 - **Cash flow through second half of calendar year; property taxes are cyclical**
 - Significant emergencies and unanticipated expenditures
 - Flexibility for discretionary funding needs
 - **Potential for better interest rates on debt issues (can save the School District money)**
 - To cover potential shortfalls from the state
 - Important given the uncertain economic times
 - Unique requirements of a coastal entity (Acts of God, etc.)



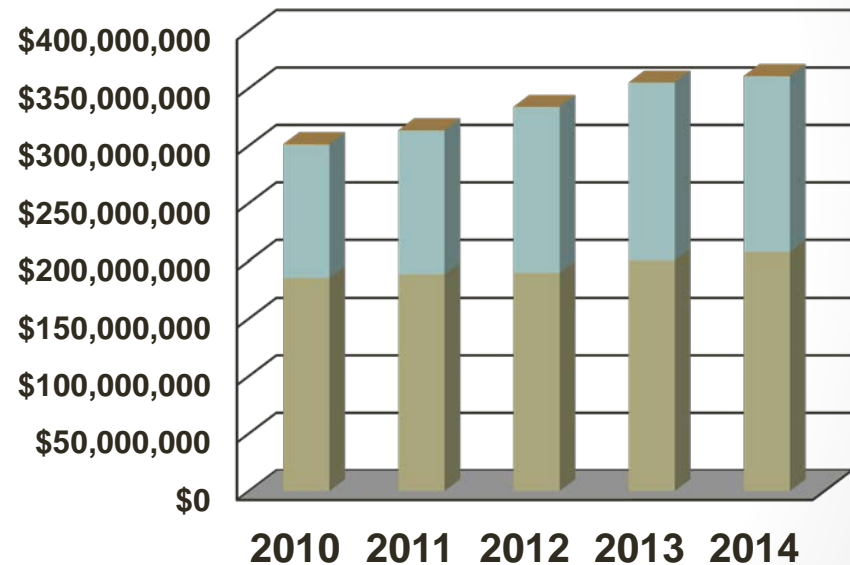
2014 FINANCIAL AUDIT

Charleston County School District

General Fund Revenues:

- \$360.7 million for 2014:
 - \$207.6 million from property taxes
 - \$152.5 million from the state gov't
 - \$97 thousand from the federal gov't
 - \$488 thousand for all other revenues
- \$5.7 million (1.6%) increase from 2013
 - \$7.2M or 3.6% increase in local property tax revenues due to a 3.1% increase in assessed values
 - \$1.7M or 1.1% decrease in state revenues due to reclassifications of various property tax funding districts

GENERAL FUND REVENUES



■ Property Taxes ■ State
■ Federal ■ Other Revenues



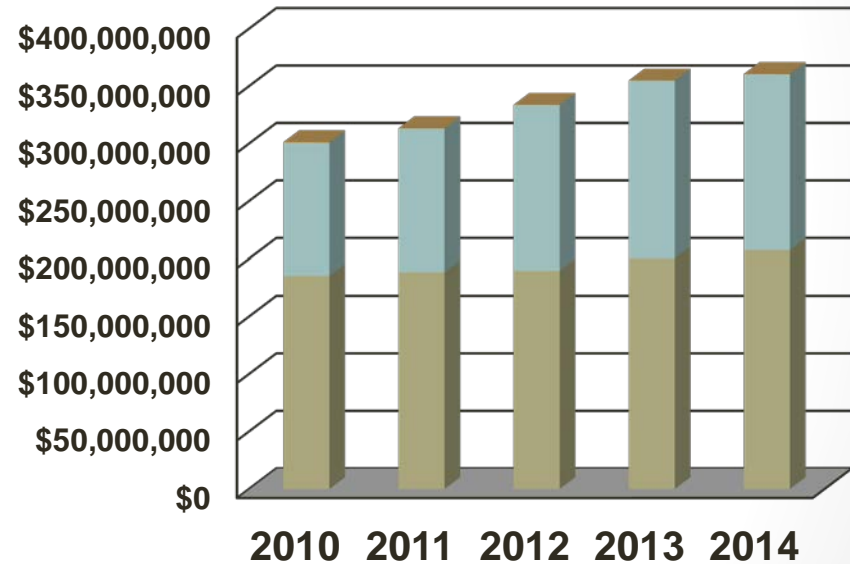
2014 FINANCIAL AUDIT

Charleston County School District

General Fund Revenues:

- \$869 thousand (0.2%) over budget
 - \$4.6M less than budget in local property tax revenues due to lower than anticipated collections
 - \$5.6M higher than budget in state revenues due primarily to an increase in base student cost and retiree insurance

GENERAL FUND REVENUES



■ Property Taxes ■ State
■ Federal ■ Other Revenues



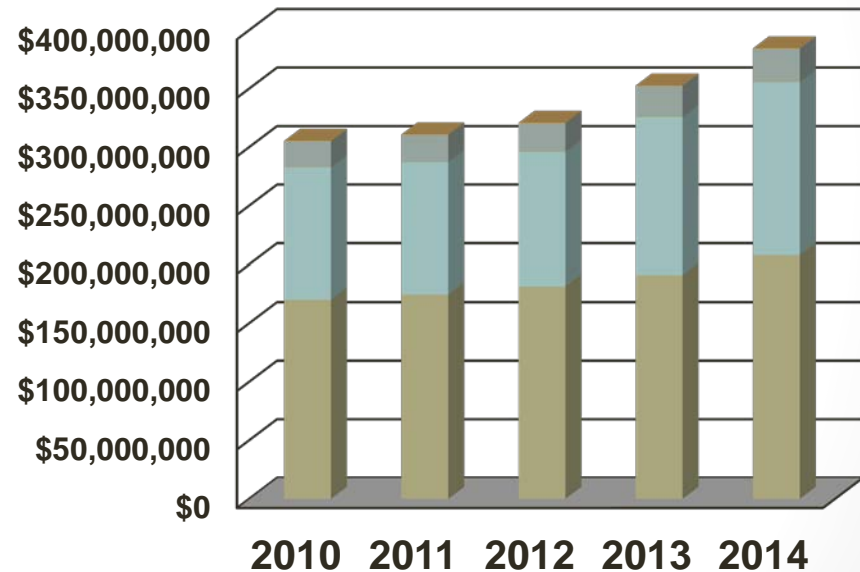
2014 FINANCIAL AUDIT

Charleston County School District

General Fund Expenditures:

- \$384.4 million for 2014:
 - \$207.9 million in instruction
 - \$147.4 million in support services
 - \$28.4 million in Payments to Component Units (charter schools)
 - \$741 thousand in other expenditures
- \$31.8 million (9.0%) increase from 2013
 - \$11.0M increase in salaries and \$8.1M increase in fringe benefits due to the budgeted step increase for teachers and 1.4% COLA to all employees as well as increases in mandated fringe rates (SCRS, health, etc.)
 - \$2.0 million increase in payments to charter schools

GENERAL FUND EXPENDITURES



- Instruction
- Support
- Community
- Payments to Component Units
- All Other



2014 FINANCIAL AUDIT

Charleston County School District

General Fund Expenditures (Continued):

- \$1.2 million over budget (less than 1%)
 - \$2.8M over budget in Instruction
 - \$3.3M over budget in benefits primarily due to:
 - workers' compensation exceeding budget by approximately \$2.2M due to the end of year liability estimate coming in higher than expected
 - retirement exceeding budget by approximately \$848k
 - \$459k under budget in Supplies and Materials
 - \$4.2M under budget in Support Services
 - \$3.5M under budget in Purchased Services-primarily:
 - \$1.3M under budget in Technology Purchased Services
 - \$654k under budget in Transportation Services
 - \$1.3M under budget in supplies and materials
 - \$581k under budget in Technology Software expenditures
 - \$2.4M over budget in payments to component units (charter schools) as a result of the unbudgeted increase in state funding



2014 FINANCIAL AUDIT

Charleston County School District

Food Service

- **The Food Service fund** had an increase in fund balance of \$510k, compared to \$1.2M in the prior year:
 - Total revenues increased approximately \$1.1 million, or 4.7%, from the prior year. \$801k of this increase is related to local revenues primarily due to the supper program sponsored by SC DSS
 - Expenditures increased \$1.5M or 7.4% from the prior year primarily due to a \$559k increase in capital outlay related to the purchase of various equipment, a \$289k increase in salaries and a \$129k increase in fringe benefits.



2014 FINANCIAL AUDIT

Charleston County School District

Special Revenue Fund

- **The Special Revenue fund** is used to account for most of the School District's grant activities (the District is restricted in how it can use these revenues):
 - Total revenues increased \$2.2M (3.2%) primarily due to a \$4.4M increase in federal revenues partially offset by a \$1.5M decrease in state revenues and a \$652k decrease in local revenues. The increase in federal revenues is related to the Teacher Incentive Fund (\$3.7M increase) and Race to the Top Fund (\$6.1M increase) grants being in their first full year of operation partially offset by a decrease in the Title I allocation. State revenues decreased due to a \$1.1M decrease in IDEA contingency revenues.
 - The Special Revenue fund had 75 individual funds/special revenue programs during FY14.
 - Fund Balance of \$3.4M, a decrease of \$1.4M from the prior year.

EIA Fund

- **The EIA Fund** is used to account for the School District's state receipts related to the Education Improvement Act:
 - Total state revenues were \$29.3 million – an increase of \$228k or less than 1% from 2013.
 - The EIA Fund had 25 individual funds/EIA programs during FY14.



2014 FINANCIAL AUDIT

Charleston County School District

Debt Service – District Fund

- **The Debt Service – District fund** is used to account for property taxes collected and held by the County Treasurer to make annual principal and interest payments on the District's debt:
 - Total revenues of \$82.4M, an increase of \$1.1M or 1.3% from the prior year primarily as a result of a \$1.6M increase in property tax revenues related to a 3.1% increase in assessed values.
 - Fund balance deficit of \$1.2M, due to short-term debt issuances

Debt Service – CEEF Fund

- **The Debt Service – CEEF Fund** is used to account for the debt service reserve funds related to the School District's CEEF blended component unit:
 - Total revenues of \$811k, a decrease of \$14.0M or 94.5% from FY13 as a result of the District receiving a \$13.1M termination payment from the termination of a forward delivery agreement as part of the refunding of the 2005 CEEF bonds during FY13. Remaining decrease is due to decreased interest income as a result of reserve funds used in the FY2013 debt refundings.
 - Total fund balance of \$27.7M, a decrease of \$605k or 21.4%, due to the debt service expenditures exceeding interest income and transfers in. Most of this fund balance is required reserves per the debt documents.



2014 FINANCIAL AUDIT

Charleston County School District

Capital Projects – District Fund

- **The Capital Projects – District fund** is used to account for most of the District's capital improvement activities:
 - Total revenues of \$84.3M, an increase of \$8.1M or 10.6% from the prior year primarily due to an \$8.2M increase in Local One Cent Sales Tax revenues.
 - Total fund balance of \$67.8M, a decrease of \$24.1M or 26.2%, due to expenditures related to ongoing construction projects. Fund balance is restricted for future capital improvements (capital projects).

Capital Projects – CEEF Fund

- **The Capital Projects – CEEF Fund** is used to account for the capital improvements related to the School District's CEEF blended component unit:
 - Total revenues of \$4k, which is consistent with the prior year revenues.
 - Total fund balance of \$14.1M, a decrease of \$20.3M or 59.0%, due to expenditures related to ongoing construction projects. Fund balance is restricted for future capital improvements (capital projects).



2014 FINANCIAL AUDIT

Charleston County School District

Other Items of Note:

- Total capital assets were \$1.2 billion at 6/30/14 – increase of \$106.7 million from 6/30/13:
 - \$120.1 million increase in buildings primarily due to completed construction projects, including:
 - Lincoln High School Renovations
 - Montessori Community School
 - Laing Middle School Roof/Building Envelope
 - NEW Buist Academy
 - NEW James Simons Elementary School
 - NEW Memminger Elementary School
- Construction commitments of approx. \$56.5M at 6/30/14 in addition to \$40.6M awarded subsequent to 6/30/14



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Other Items of Note:

- Total long-term obligations outstanding at 6/30/14 were \$850.5 million – decrease of \$31.5 million from 6/30/13.
 - Decrease is primarily due to \$25.5 million in scheduled principal payments made during the year.
 - Total debt service payments for 2015 on outstanding debt are expected to be \$72.5M.
 - Subsequent debt issues:
 - \$67.2M Tax Anticipation Note due in April 2015
 - \$58.9M short-term General Obligation Bonds due in March 2015
 - \$111.6M Series 2014 CEEF Refunding Bonds used to refund \$133.0M of the outstanding 2006 CEEF Bonds.



2014 FINANCIAL AUDIT

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Other Items of Note:

- Implemented GASB #65 *Items Previously Reported as Assets and Liabilities* during the year ended June 30, 2014. Impacts included:
 - Bond issuance costs of \$3.6M were written off as an adjustment to opening net position.
 - Deferred refunding charges, which were previously reported as a reduction of long-term liabilities, are now being reported as a deferred outflow of resources.
 - Deferred revenues related to property taxes are now reported as deferred inflows of resources on the fund statements.



2014 FINANCIAL AUDIT

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AUDITING/ACCOUNTING UPDATE:

- Future Significant Changes in Accounting Principles:
 - GASB #68: Accounting and Financial Reporting for Pensions. Becomes effective in 2015 for cost-sharing multiple-employer plans. Since the District participates in the state multiple-employer pension plans (SCRS and PORS), the District will be required to record its pro-rata portion of the net pension liability associated with these plans in its Statement of Net Position which is expected to decrease the District's net position by approximately \$497.9M based on the latest information provided by the SC Public Employee Benefit Authority.



2014 FINANCIAL AUDIT

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Compliance

- Material Weakness – Recording of principal payment on short-term debt.
- Single Audit was required for 2014
 - Individuals with Disabilities Education Act (“IDEA”) Cluster
 - School Improvement Grants (“SIG”) Cluster
 - Title I
 - Head Start
 - Race to the Top (“RTT”)
- Single Audit Findings:
 - Head Start – Allowable Costs: Payroll Charges
 - RTT – Allowable Costs: Payroll Charges
 - SIG – Allowable Costs: Payroll Charges

Management Letter

- Required communications to management and those charged with governance. The following issues were noted:
 - Payroll – more issues, but significant improvements since the new payroll team was hired



2014 FINANCIAL AUDIT

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Consideration of future financial risks

- Future continued increases in salaries and benefits
 - Efficiency/effectiveness improvements
- Increased operating costs due to new facilities

These should be addressed in long-term strategic and financial planning



2014 FINANCIAL AUDIT

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Summary

- Unmodified opinion on the Financial Statements from GF&H
- Good financial condition as of June 30, 2014
- Consider uses of fund balance carefully in future years
- Consider impact of long-term issues in five year cash flow and budget projections

