

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA



ANNUAL FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2023

THE SCHOOL BOARD OF THE CITY OF FRANKLIN
(A Component Unit of the City of Franklin, Virginia)
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Financial Report
Year Ended June 30, 2023

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

BOARD MEMBERS

Robert Holt, Ward 1
Arwen Councill, Ward 2
LaChanda E. Parker, Ward 3
Cristina Boone, Ward 4

Brittany S. Powell, Ward 5
Jerry McCreary, Ward 6
Carrie Johnson, At

ADMINISTRATIVE/FISCAL OFFICERS

Dr. Carlton Carter, Superintendent of Schools

Tracy Morrison, Finance Director

Angela Edwards, Finance Specialist

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

To the Honorable Members of the School Board
City of Franklin, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the School Board of the City of Franklin, Virginia, a component unit of the City of Franklin, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School Board of the City of Franklin, Virginia's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of School Board of the City of Franklin, Virginia, as of June 30, 2023, and the changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of School Board of the City of Franklin, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principles

As described in Note 19 to the financial statements, in 2023, the School Board adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about School Board of the City of Franklin, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Governmental Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Governmental Auditing Standards*, and the *Specifications for Audits of Counties, Cities, and Towns*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School Board of the City of Franklin, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about School Board of the City of Franklin, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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

Required Supplementary Information (Continued)

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.

The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Board of the City of Franklin, Virginia's basic financial statements. The accompanying supporting schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 supporting schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2023, on our consideration of the School Board of the City of Franklin, Virginia'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 solely 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 the effectiveness of the School Board of the City of Franklin, Virginia's 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 School Board of the City of Franklin, Virginia's internal control over financial reporting and compliance.

Robinson, Farnum, Cox Associates

Richmond, Virginia
November 6, 2023

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 1

Statement of Net Position
June 30, 2023

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 1,773,773
Inventory	27,386
Due from other governmental units	1,074,779
Net pension asset	697,617
Net OPEB asset	7,905
Capital assets (net of accumulated depreciation):	
Land improvements	104,170
Buildings	6,081,245
Infrastructure	4,641,289
Leased equipment	847,062
Subscription assets	38,247
Machinery and equipment	2,237,478
Construction in progress	67,210
Total assets	<u>\$ 17,598,161</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 2,327,700
OPEB related items	385,342
Total deferred outflows of resources	<u>\$ 2,713,042</u>
LIABILITIES	
Accounts payable	\$ 223,910
Accrued liabilities	1,073,070
Long-term liabilities:	
Due within one year	228,638
Due in more than one year	9,949,769
Total liabilities	<u>\$ 11,475,387</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 2,594,975
OPEB related items	533,026
Total deferred inflows of resources	<u>\$ 3,128,001</u>
NET POSITION	
Net investment in capital assets	\$ 12,906,733
Restricted for:	
Net pension asset	697,617
Net OPEB asset	7,905
Unrestricted	(7,904,440)
Total net position	<u><u>\$ 5,707,815</u></u>

The notes to financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 2

Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Governmental activities:					
Instruction	\$ 11,658,671	\$ 44,124	\$ 15,703,622	\$ -	\$ 4,089,075
Administration, attendance and health	2,307,725	-	-	-	(2,307,725)
Pupil transportation	728,350	-	-	-	(728,350)
Operation and maintenance	2,088,010	-	-	-	(2,088,010)
Food services	1,181,469	33,921	854,082	-	(293,466)
Technology	1,085,868	-	-	-	(1,085,868)
Interest on long-term debt	44,417	-	-	-	(44,417)
Total governmental activities	<u>\$ 19,094,510</u>	<u>\$ 78,045</u>	<u>\$ 16,557,704</u>	<u>\$ -</u>	<u>\$ (2,458,761)</u>
General revenues:					
Unrestricted revenues from use of money and property				\$	2,856
Miscellaneous					507,144
Payment from City of Franklin					4,330,237
Total general revenues				\$	<u>4,840,237</u>
Change in net position				\$	2,381,476
Net position - beginning					<u>3,326,339</u>
Net position - ending				\$	<u>5,707,815</u>

The notes to financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2023

	School Operating	Cafeteria	Textbook	School Activity Funds	Total
ASSETS					
Cash and cash equivalents	\$ 1,171,934	\$ 452,152	\$ 109,869	\$ 39,818	\$ 1,773,773
Due from other funds	-	-	78,686	-	78,686
Inventory	-	27,386	-	-	27,386
Due from other governmental units	1,029,542	45,237	-	-	1,074,779
Total assets	<u>\$ 2,201,476</u>	<u>\$ 524,775</u>	<u>\$ 188,555</u>	<u>\$ 39,818</u>	<u>\$ 2,954,624</u>
LIABILITIES					
Accounts payable	\$ 207,747	\$ 16,163	\$ -	\$ -	\$ 223,910
Accrued liabilities	1,023,532	49,538	-	-	1,073,070
Due to other funds	78,686	-	-	-	78,686
Total liabilities	<u>\$ 1,309,965</u>	<u>\$ 65,701</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,375,666</u>
FUND BALANCE					
Nonspendable:					
Inventory	\$ -	\$ 27,386	\$ -	\$ -	\$ 27,386
Assigned:					
Education	-	431,688	188,555	39,818	660,061
Unassigned	891,511	-	-	-	891,511
Total fund balances	<u>\$ 891,511</u>	<u>\$ 459,074</u>	<u>\$ 188,555</u>	<u>\$ 39,818</u>	<u>\$ 1,578,958</u>
Total liabilities and fund balances	<u>\$ 2,201,476</u>	<u>\$ 524,775</u>	<u>\$ 188,555</u>	<u>\$ 39,818</u>	<u>\$ 2,954,624</u>

The notes to financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 4

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2023

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,578,958
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Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds. The
amounts reported below are net of accumulated depreciation.

Land improvements	\$	104,170	
Buildings		6,081,245	
Infrastructure		4,641,289	
Leased equipment		847,062	
Subscription assets		38,247	
Machinery and equipment		2,237,478	
Construction in progress		<u>67,210</u>	14,016,701

The net pension asset is not an available resource and, therefore, is and, not reported in the funds - Nonprofessional group		697,617
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The net OPEB asset is not an available resource and, therefore, is and, not reported in the funds - Nonprofessional group		7,905
--	--	-------

Deferred outflows of resources are not available to pay for current period expenditures and, therefore, are not reported in the funds.			
Pension related items	\$	2,327,700	
OPEB related items		<u>385,342</u>	2,713,042

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Net pension liability	\$	(7,035,722)	
Lease liabilities		(1,071,104)	
Subscription liabilities		(38,864)	
Compensated absences		(209,479)	
Net OPEB liabilities		<u>(1,823,238)</u>	(10,178,407)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.			
Pension related items	\$	(2,594,975)	
OPEB related items		<u>(533,026)</u>	(3,128,001)

Net position of governmental activities	\$	<u><u>5,707,815</u></u>
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The notes to financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 5

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2023

	School Operating	Cafeteria	Textbook	School Activity Funds	Total
REVENUES					
Revenue from the use of money and property	\$ 2,844	\$ -	\$ 12	-	\$ 2,856
Charges for services	44,124	33,921	-	-	78,045
Miscellaneous	73,067	99,257	-	334,820	507,144
Intergovernmental:					
Local government	4,330,237	-	-	-	4,330,237
Commonwealth	12,261,140	21,196	-	-	12,282,336
Federal	3,442,482	832,886	-	-	4,275,368
Total revenues	<u>\$ 20,153,894</u>	<u>\$ 987,260</u>	<u>\$ 12</u>	<u>\$ 334,820</u>	<u>\$ 21,475,986</u>
EXPENDITURES					
Current:					
Education:					
Instruction	\$ 13,788,110	\$ -	\$ 17,387	\$ 340,554	\$ 14,146,051
Administration, attendance and health	2,205,567	-	-	-	2,205,567
Pupil transportation	696,107	-	-	-	696,107
Operations and maintenance	2,062,921	-	-	-	2,062,921
Food services	3,878	1,125,290	-	-	1,129,168
Technology	1,141,571	-	-	-	1,141,571
Debt service:					
Principal retirement	194,710	-	-	-	194,710
Interest and other fiscal charges	44,417	-	-	-	44,417
Total expenditures	<u>\$ 20,137,281</u>	<u>\$ 1,125,290</u>	<u>\$ 17,387</u>	<u>\$ 340,554</u>	<u>\$ 21,620,512</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 16,613</u>	<u>\$ (138,030)</u>	<u>\$ (17,375)</u>	<u>\$ (5,734)</u>	<u>\$ (144,526)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ -	\$ -	\$ 78,686	\$ -	\$ 78,686
Transfers out	(78,686)	-	-	-	(78,686)
Total other financing sources (uses)	<u>\$ (78,686)</u>	<u>\$ -</u>	<u>\$ 78,686</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balances	\$ (62,073)	\$ (138,030)	\$ 61,311	\$ (5,734)	\$ (144,526)
Fund balances - beginning	953,584	597,104	127,244	45,552	1,723,484
Fund balances - ending	<u>\$ 891,511</u>	<u>\$ 459,074</u>	<u>\$ 188,555</u>	<u>\$ 39,818</u>	<u>\$ 1,578,958</u>

The notes to financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 6

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2023

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$	(144,526)
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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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$	1,032,818	
Depreciation		<u>(990,353)</u>	42,465

The issuance of long-term debt (e.g. bonds, leases) 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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal paid on lease liabilities	176,204	
Principal paid on subscription liabilities	<u>18,506</u>	194,710

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

Change in pension related items	\$	2,045,315	
Change in OPEB related items		172,856	
Change in compensated absences		<u>70,656</u>	<u>2,288,827</u>

Change in net position of governmental activities	\$	<u><u>2,381,476</u></u>
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The notes to financial statements are an integral part of this statement.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023

Note 1—Summary of Significant Accounting Policies:

The School Board of the City of Franklin, Virginia (the “School Board”) was established in 1963 to provide educational opportunities to the residents of the City of Franklin (the “City”). The accounting principles of the School Board conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

A. Financial Reporting Entity

The School Board is a component unit of the City of Franklin, Virginia and, accordingly, the financial position and results of operations of the School Board are presented in the financial statements included in the Annual Comprehensive Financial Report of the City. All members of the School Board were appointed. The majority of the School Board’s funding is provided by annual appropriations from the Commonwealth of Virginia with the City being the second major source of funding. The City Council approves the School Board’s operating budget but is prohibited from exercising any control over specific expenditures.

B. Individual Component Unit Disclosures

Blended Component Unit - The School Board has no blended component units to be included for the fiscal year ended June 30, 2023.

Discretely Presented Component Unit - The School Board has no discretely presented component units to be included for the fiscal year ended June 30, 2023.

C. Other Related Organizations

Included in the School Board’s Financial Report

None

Excluded from the School Board’s Financial Report

None

D. Financial Statement Presentation

Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government’s activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

D. Financial Statement Presentation: (Continued)

Government-wide and Fund Financial Statements: (Continued)

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. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component unit. Governments will report all capital assets, in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by plan revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Plan revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Governments provide budgetary comparison information in their annual reports, including the original budget, and a comparison of final budget and actual results.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities reflects both the gross and net cost per functional category which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized when they have been earned and 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service principal and interest expenditures on general long-term debt, including lease and subscription liabilities, as well as expenditures related to compensated absences, claims and judgments, postemployment benefits, and environmental obligations are recognized later based on specific accounting rules applicable to each, generally when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease and subscription assets, are reported as expenditures in the governmental funds. Issuance of long-term debt and financing through leases and subscriptions are reported as other financing sources.

In the fund financial statements, financial transactions and accounts of the School Board are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation: (Continued)

1. Governmental Funds (Continued)

The School Board reports the following governmental funds:

School Operating Fund - The Operating Fund is the primary operating fund of the School Board. This fund is used to account for and report all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from state and federal distributions and contributions from the City of Franklin, Virginia. The Operating Fund is considered a major fund for reporting purposes.

Special Revenue Funds - The Special Revenue Funds account for and report the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The Special Revenue Funds consist of the Cafeteria, Textbook, and School Activity Funds. The Cafeteria and Textbook Funds are considered major funds for reporting purposes, while the School Activity Funds is considered a nonmajor fund.

F. Budgets and Budgetary Accounting

The budgetary data reflected in the financial statements was established by the School Board using the following procedures, which comply with legal requirements:

- i. On or before April 1, the School Board submits to the City Council of the City of Franklin proposed operating budgets for the Operating Fund. The operating budgets include proposed expenditures and the means of financing them.
- ii. A public hearing on the budget is held after a synopsis of the budget is published in a local newspaper of general circulation. An appropriation ordinance must be adopted by the City Council prior to May 1 or as soon thereafter as is practicable.

The School Board and Superintendent are authorized to make transfers between functions and budgetary line items, respectively. However, City Council must approve any budget revisions at the fund level once the appropriation ordinance has been adopted. The legal level of budgetary control for the Operating Fund is the fund level or the level at which management cannot make transfers or over-expenditures in excess of appropriations without the approval of the School Board. However, management control is exercised over the budget at the individual revenue and expenditure budgetary line item level. Adopted budgets may be amended or superseded by actions of City Council. Appropriations, except for encumbrances and committed fund balances, lapse at year end. Encumbrances and reserved fund balances outstanding at year end are reappropriated in the succeeding year.

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

H. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

I. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “advances to/from other funds” (i.e. the noncurrent portion of interfund loans).

J. Inventory

Inventory in the Cafeteria Fund is stated at cost (which is determined using the first-in first-out method). The inventory consists of expendable items held for consumption and is recorded as an expenditure when used (consumption method). Donated inventory is valued at prices determined by the United States Department of Agriculture.

K. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

L. Capital Assets

Capital assets are tangible and intangible assets, which include property, plant and equipment, lease, and subscription assets are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the School Board as land, buildings, road registered vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed (except for intangible right-to-use assets, the measurement of which is discussed in Note 6). Donated capital assets are recorded at acquisition value at the date of donation.

As the School Board constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease and subscription assets, the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset’s capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

L. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The other tangible and intangible property, plant and equipment and the right to use lease assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	20-50
Infrastructure	10-30
Lease equipment	5-10
Subscription asset	3
Machinery and equipment	3-50

M. Leases and Subscription-Based IT Arrangements

The School Board has various lease assets and subscription-based IT arrangements (SBITAs) requiring recognition. A lease is a contract that conveys control of the right to use another entity’s nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. A SBITA is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

Lessee

The School Board recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate, in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Subscriptions

The School Board recognizes intangible right-to-use subscription assets (subscription assets) and corresponding subscription liabilities with an initial value of \$5,000, in individually or in the aggregate, in the government-wide financial statements. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

M. Leases and Subscription-Based IT Arrangements (Continued)

Key Estimates and Judgments

Lease and subscription-based IT arrangement accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease and subscription payments to present value, (2) lease and subscription term, and (3) lease and subscription payments.

- The School Board uses the interest rate stated in lease or subscription contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the School Board uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.
- The lease and subscription terms include the noncancellable period of the lease or subscription and certain periods covered by options to extend to reflect how long the lease or subscription is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease or subscription incentives and certain other payments are included in the measurement of the lease receivable (lessor), lease liability (lessee) or subscription liability.

The School Board monitors changes in circumstances that would require a remeasurement or modification of its leases and subscriptions. The School Board will remeasure the lease receivable and deferred inflows of resources (lessor), the lease asset and liability (lessee) or the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the lease receivable, lease liability or subscription liability.

N. Accrued Liabilities

Teachers may elect to have their salaries paid over twelve months although they are earned during the ten-month school year. Salaries that are earned but unpaid at June 30 are included in accrued liabilities.

O. Unearned Revenue

Revenue from grants is recognized when the related expenditure is made. Amounts received for various grant programs for which expenditures have not been made are recorded as unearned revenue. There is no unearned revenue as of June 30, 2023.

P. Compensated Absences

School Board employees are granted vacation and sick pay in varying amounts. In the event of termination, other than retirement, School Board employees are reimbursed for accumulated vacation days based on years of service and are not reimbursed for accumulated sick leave. Upon retirement, School Board employees are reimbursed for accumulated vacation days and accumulated sick leave.

For Governmental Funds, the cost of accumulated vacation and sick leave expected to be paid in the next twelve months is recorded as a fund liability and amounts expected to be paid after twelve months are recorded in the Government-wide Financial Statements.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

Q. Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities.

R. Reversion of Unused Appropriation to City of Franklin

Since Operating Fund appropriations, except for encumbrances and restrictions of fund balance, lapse at year-end, any unused appropriation reverts to the City of Franklin in the following year.

S. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has one item that qualifies for reporting in this category. It is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting in this category. Certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

U. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the School Board's Retirement Plan and the additions to/deductions from the School Board's Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

V. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, HIC, Teacher HIC, VLDP, and Teacher VLDP OPEB Plans and the additions to/deductions from the VRS OPEB Plans' fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

W. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the School Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School Board's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

X. Net Position Flow Assumption

Sometimes the School Board will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School Board's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 1—Summary of Significant Accounting Policies: (Continued)

Y. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called “fund balance.” The School Board’s governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- 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 a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the School Board policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment, which does not lapse at year end, is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

Note 2—Deposits:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 2—Deposits: (Continued)

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

The School Board had no investments at June 30, 2023.

Note 3—Due from Other Governmental Units:

Amounts due from other governments consist principally of cost reimbursements due from the Commonwealth of Virginia and from federal and state grants. Such amounts are generally received in the succeeding month. The following is a summary of amounts due from other governments at June 30, 2023:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
School Operating Fund:			
CARES Act ESSERF	\$ 412,355	\$ -	\$ 412,355
Title I	207,340	-	207,340
Special Education Cluster	102,446	-	102,446
Vocational education	27,318	-	27,318
Title II-A	17,497	-	17,497
Other federal funds	117,381	-	117,381
Sales Tax	-	145,205	145,205
School Operating Fund Total	\$ 884,337	\$ 145,205	\$ 1,029,542
Special Revenue Fund-Cafeteria	45,237	-	45,237
Total	\$ 929,574	\$ 145,205	\$ 1,074,779

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 4—Capital Assets:

The following is a summary of changes in capital assets during the fiscal year.

	Balance July 1, 2022	GASB 96 Adjustments	Adjusted Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets, not being depreciated:						
Construction in progress	\$ 119,335	\$ -	\$ 119,335	\$ 186,545	\$ 238,670	\$ 67,210
Total capital assets not being depreciated	\$ 119,335	\$ -	\$ 119,335	\$ 186,545	\$ 238,670	\$ 67,210
Capital assets being depreciated:						
Land improvements	\$ 272,305	\$ -	\$ 272,305	\$ -	\$ -	\$ 272,305
Buildings	14,848,986	-	14,848,986	-	-	14,848,986
Infrastructure	6,258,843	-	6,258,843	36,637	-	6,295,480
Lease equipment	1,411,770	-	1,411,770	-	-	1,411,770
Subscription assets	-	57,370	57,370	-	-	57,370
Machinery and equipment	6,605,187	-	6,605,187	1,048,306	-	7,653,493
Total capital assets being depreciated	\$ 29,397,091	\$ 57,370	\$ 29,454,461	\$ 1,084,943	\$ -	\$ 30,539,404
Accumulated depreciation:						
Land improvements	\$ 157,906	\$ -	\$ 157,906	\$ 10,229	\$ -	\$ 168,135
Buildings	8,489,961	-	8,489,961	277,780	-	8,767,741
Infrastructure	1,486,845	-	1,486,845	167,346	-	1,654,191
Lease equipment	282,354	-	282,354	282,354	-	564,708
Subscription assets	-	-	-	19,123	-	19,123
Machinery and equipment	5,182,494	-	5,182,494	233,521	-	5,416,015
Total accumulated depreciation	\$ 15,599,560	\$ -	\$ 15,599,560	\$ 990,353	\$ -	\$ 16,589,913
Total capital assets being depreciated, net	\$ 13,797,531	\$ 57,370	\$ 13,854,901	\$ 94,590	\$ -	\$ 13,949,491
School Board capital assets, net	\$ 13,916,866	\$ 57,370	\$ 13,974,236	\$ 281,135	\$ 238,670	\$ 14,016,701

Per Section 15.2-1800.1 of the Code of Virginia, 1950, as amended, the City has a “tenancy in common” with the School Board for any school property purchased with a financial obligation payable over more than one fiscal year. For financial reporting purposes, the legislation permits the City to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 5—Long-term Obligations:

The following is a summary of changes in long-term obligations transactions for fiscal year ending June 30, 2023:

	Balance July 1, 2022	GASB 96 Adjustments	Adjusted Balance July 1, 2022	Issuances/ Increases	Retirements/ Decreases	Balance June 30, 2023	Amounts Payable Within One Year
Compensated absences	\$ 280,135	\$ -	\$ 280,135	\$ -	\$ 70,656	\$ 209,479	\$ 20,948
Net pension liability	5,959,730	-	5,959,730	6,515,784	5,439,792	7,035,722	-
Net OPEB liabilities	1,833,234	-	1,833,234	760,855	770,851	1,823,238	-
Subscription liabilities	-	57,370	57,370	-	18,506	38,864	19,116
Lease liabilities	1,247,308	-	1,247,308	-	176,204	1,071,104	188,574
Total	\$ 9,320,407	\$ 57,370	\$ 9,377,777	\$ 7,276,639	\$ 6,476,009	\$ 10,178,407	\$ 228,638

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Leases Liabilities		Subscription Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 188,574	\$ 35,599	\$ 19,116	\$ 1,231
2025	201,604	28,123	19,748	600
2026	182,404	20,493	-	-
2027	189,163	13,115	-	-
2028	203,128	5,218	-	-
2029	106,231	4	-	-
Total	\$ 1,071,104	\$ 102,552	\$ 38,864	\$ 1,831

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 5—Long-term Obligations: (Continued)

	<u>Amount Outstanding</u>
Lease liabilities:	
\$1,633,726 obligation for energy efficient equipment, issued January 1, 2018 payable in varying quarterly installments through December 6, 2028, interest at 4.01%.	\$ 989,265
\$138,018 copier lease, issued August 11, 2020 payable in monthly installments of \$2,480 through August 11, 2025, interest at 3%.	62,354
\$43,131 copier lease, issued August 11, 2020 payable in monthly installments of \$775 through August 11, 2025, interest at 3%.	19,485
Total lease liabilities	\$ <u>1,071,104</u>
Subscription liabilities:	
Subscription based IT arrangement for Smoothwall with annual payments of \$16,907 beginning June 2023 through June 2025, interest at 3.25%	\$ 32,211
Subscription based IT arrangement for Stormwind with monthly payments of \$287 beginning July 2022 through June 2025, interest at 3.25%	6,653
Total subscription liabilities	\$ <u>38,864</u>

Note 6—Interfund Transfers:

Interfund transfers for the year ended June 30, 2023 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Component Unit-School Board:		
School Operating	\$ -	\$ 78,686
Textbook	78,686	-
Total	\$ <u>78,686</u>	\$ <u>78,686</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the School Operating Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the City of Franklin School Board (nonprofessional employees) are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>School Board (nonprofessional)</u>
Inactive members or their beneficiaries currently receiving benefits	14
Inactive members:	
Vested inactive members	1
Non-vested inactive members	11
Long-term disability (LTD)	-
Inactive members active elsewhere in VRS	8
Total inactive members	20
Active members	20
Total covered employees	54

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The School Board's contractually required employer contribution rate for nonprofessional employees for the year ended June 30, 2023 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Contributions (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board’s nonprofessional employees were \$0 and \$0 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net Pension Liability (Asset)

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. The School Board’s (nonprofessional) net pension asset was measured as of June 30, 2022. The total pension liabilities used to calculate the net pension assets were determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the School Board’s (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

All Others (Non-10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service-related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
		Inflation	2.50%
		Expected arithmetic nominal return**	7.83%

*The above allocation provides a one-year expected return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2021 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2022, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balances at June 30, 2021	\$ 1,692,225	\$ 2,477,475	\$ (785,250)
Changes for the year:			
Service cost	\$ 36,531	\$ -	\$ 36,531
Interest	112,906	-	112,906
Differences between expected and actual experience	(36,512)	-	(36,512)
Contributions - employee	-	29,391	(29,391)
Net investment income	-	(2,605)	2,605
Benefit payments, including refunds	(107,106)	(107,106)	-
Refunds of employee contributions	(5,030)	(5,030)	-
Administrative expenses	-	(1,550)	1,550
Other changes	-	56	(56)
Net changes	\$ 789	\$ (86,844)	\$ 87,633
Balances at June 30, 2022	\$ 1,693,014	\$ 2,390,631	\$ (697,617)

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the School Board (nonprofessional) using the discount rate of 6.75%, as well as what the School Board's (nonprofessional) net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
School Board (nonprofessional)			
Net Pension Liability (Asset) \$	(499,084) \$	(697,617) \$	(861,257)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, the School Board (nonprofessional) recognized pension expense of \$(216,818). At June 30, 2023, the School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 60,561
Change in assumptions	7,409	-
Net difference between projected and actual earnings on pension plan investments	-	71,435
Total	\$ 7,409	\$ 131,996

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

\$0 reported as deferred outflows of resources related to pensions resulting from the School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>School Board (nonprofessional)</u>
2024	\$ (73,840)
2025	(36,036)
2026	(48,111)
2027	33,400
2028	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Component Unit School Board (professional)

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information related to the plan description is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 16.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the school division were \$1,275,544 and \$1,097,787 for the years ended June 30, 2023 and June 30, 2022, respectively.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Contributions (Continued)

In June 2022, the Commonwealth made a special contribution of approximately \$442.4 million to the VRS Teacher Retirement Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the school division reported a liability of \$7,035,722 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion was 0.07390% as compared to 0.07677% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized pension expense of \$(226,041). Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. Beginning with the June 30, 2022 measurement date, the difference between expected and actual contributions is included with the pension expense calculation.

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience \$	-	\$ 485,141
Change in assumptions	663,327	-
Net difference between projected and actual earnings on pension plan investments	-	917,311
Changes in proportion and differences between employer contributions and proportionate share of contributions	381,420	1,060,527
Employer contributions subsequent to the measurement date	1,275,544	-
Total	<u>\$ 2,320,291</u>	<u>\$ 2,462,979</u>

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$1,275,544 reported as deferred outflows of resources related to pensions resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

	<u>Year Ended June 30</u>	
	2024	\$ (654,439)
	2025	(523,963)
	2026	(593,237)
	2027	353,407
	2028	-

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.95%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Actuarial Assumptions: (Continued)

Mortality rates:

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2022, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	\$ 54,732,329
Plan Fiduciary Net Position	45,211,731
Employers' Net Pension Liability (Asset)	\$ <u>9,520,598</u>

Plan Fiduciary Net Position as a Percentage
of the Total Pension Liability 82.61%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

The long-term expected rate of return and discount rate information previously described also apply to this plan.

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 6.75%, as well as what the school division's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)

School division's proportionate share of the
VRS Teacher Employee Retirement Plan

Net Pension Liability (Asset) \$ 12,566,339 \$ 7,035,722 \$ 2,532,584

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional): (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Primary Government and Component Unit School Board

Aggregate Pension Information

	School Board			
	Deferred Outflows	Deferred Inflows	Net Pension Liability (Asset)	Pension Expense
VRS Pension Plans:				
School Board Nonprofessional	\$ 7,409	\$ 131,996	\$ (697,617)	\$ (216,818)
School Board Professional	2,320,291	2,462,979	7,035,722	(226,041)
Totals	<u>\$ 2,327,700</u>	<u>\$ 2,594,975</u>	<u>\$ 6,338,105</u>	<u>\$ (442,859)</u>

Note 8—Commitments and Contingencies:

Federal plans in which the School Board participates were audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of this circular all major plans and certain other plans were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant plans to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant plan expenditures, if any, would be immaterial.

Note 9—Risk Management:

The School Board 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 School Board reports all of its risk management activities in its Operating Fund and pays all premiums from Operating Fund resources. The School Board maintains comprehensive property and casualty policies, commercial general liability policies, comprehensive liability vehicle fleet policies and coverages for errors and omissions, workers' compensation, employer's liability, health care and certain other risks with commercial insurance companies. All premiums are budgeted for and paid with Operating Fund resources. All unemployment and health care claims are paid through a third-party administrator through resources from the Operating Fund. There have been no reductions in insurance coverages from the prior year and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 10—Litigation:

At June 30, 2023, there were no matters of litigation involving the School Board which would materially affect the School Board's financial position should any court decisions on pending matters not be favorable to such entities.

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan):

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,984 as of June 30, 2023.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the entity were \$3,949 and \$3,803 for the years ended June 30, 2023 and June 30, 2022, respectively, for the School Board (nonprofessional); and \$44,334 and \$37,564 for the years ended June 30, 2023 and June 30, 2022, respectively, for the School Board (professional).

In June 2022, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance Plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB

At June 30, 2023, liabilities of \$39,013 and \$385,070 were reported for School Board (nonprofessional) and School Board (professional), respectively, for the proportionate shares of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the participating employer's proportion was 0.00320% and 0.03200% as compared to 0.00260% and 0.003350% at June 30, 2021, for School Board (nonprofessional) and School Board (professional), respectively.

For the year ended June 30, 2023, the participating employer recognized GLI OPEB expense of \$3,853 and (\$14,792) for School Board (nonprofessional) and School Board (professional), respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB: (Continued)

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
School Board (nonprofessional)		
Differences between expected and actual experience \$	3,089	\$ 1,565
Net difference between projected and actual earnings on GLI OPEB program investments	-	2,438
Change in assumptions	1,455	3,800
Changes in proportionate share	11,131	8
Employer contributions subsequent to the measurement date	3,949	-
Total	\$ 19,624	\$ 7,811
School Board (professional)		
Differences between expected and actual experience \$	30,493	\$ 15,448
Net difference between projected and actual earnings on GLI OPEB program investments	-	24,061
Change in assumptions	14,363	37,507
Changes in proportionate share	25,894	79,776
Employer contributions subsequent to the measurement date	44,334	-
Total	\$ 115,084	\$ 156,792

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11–Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB: (Continued)

\$3,949 and \$44,334, for School Board (nonprofessional) and School Board (professional), respectively, reported as deferred outflows of resources related to the GLI OPEB resulting from the employer’s contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>School Board (nonprofessional)</u>	<u>School Board (professional)</u>
2024	\$ 1,923	\$ (31,859)
2025	1,942	(23,373)
2026	446	(27,956)
2027	2,433	3,518
2028	1,120	(6,372)
Thereafter	-	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Comprehensive Annual Financial Report.

Inflation	2.50%
Salary increases, including inflation:	
Teachers	3.50%-5.95%
Locality - General employees	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11–Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2022, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

	<u>GLI OPEB Plan</u>
Total GLI OPEB Liability	\$ 3,672,085
Plan Fiduciary Net Position	<u>2,467,989</u>
GLI Net OPEB Liability (Asset)	<u>\$ 1,204,096</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	67.21%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
		Inflation	2.50%
		Expected arithmetic nominal return**	7.83%

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

** On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 11—Group Life Insurance (GLI) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
School Board (nonprofessional) proportionate share of the GLI Program Net OPEB Liability	\$ 56,768	\$ 39,013	\$ 24,664
School Board (professional) proportionate share of the GLI Program Net OPEB Liability	560,322	385,070	243,442

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

The Political Subdivision Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The Political Subdivision Retiree HIC Plan was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

Benefit Amounts

The Political Subdivision Retiree HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	5
Total inactive members	<u>5</u>
Active members	20
Total covered employees	<u><u>25</u></u>

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. The School’s contractually required employer contribution rate for the year ended June 30, 2023 was 0.00% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School to the HIC Plan were \$0 and \$1,110 for the years ended June 30, 2023 and June 30, 2022, respectively.

Net HIC OPEB Liability

The School Board’s net HIC OPEB liability was measured as of June 30, 2022. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2021, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation:	
Locality - General employees	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	100.00%		5.33%
		Inflation	2.50%
		Expected arithmetic nominal return**	7.83%

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

** On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the HIC OPEB was 100% of the actuarially determined contribution rate. From July 1, 2022 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

Changes in Net HIC OPEB Liability

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 31,697	\$ 38,385	\$ (6,688)
Changes for the year:			
Service cost	\$ 346	\$ -	\$ 346
Interest	2,053	-	2,053
Differences between expected and actual experience	(4,695)	-	(4,695)
Assumption changes	4,299	-	4,299
Contributions - employer	-	1,110	(1,110)
Net investment income	-	95	(95)
Benefit payments	(3,249)	(3,249)	-
Administrative expenses	-	(64)	64
Other changes	-	917	(917)
Net changes	\$ (1,246)	\$ (1,191)	\$ (55)
Balances at June 30, 2022	\$ 30,451	\$ 37,194	\$ (6,743)

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Sensitivity of the School Board's HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the School's HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the School Board's net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
School division's			
Net HIC OPEB Liability \$	(3,940) \$	(6,743) \$	(9,165)

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB

For the year ended June 30, 2023, the School Board recognized HIC Plan OPEB expense of \$(2,402). At June 30, 2023, the School Board reported deferred outflows of resources and deferred inflows of resources related to the School Board's HIC Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 77	\$ 7,385
Net difference between projected and actual earnings on HIC OPEB plan investments	-	1,029
Change in assumptions	3,593	129
Total	\$ 3,670	\$ 8,543

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 12—Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Plan OPEB: (Continued)

\$0 reported as deferred outflows of resources related to the HIC OPEB resulting from the School Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

HIC Plan Data

Information about the VRS Political Subdivision HIC Plan is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 13—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan):

Plan Description

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Plan was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee HIC Plan. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher HIC Plan OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Teacher Employee Retiree HIC Plan was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit. Eligible employees include full-time permanent (professional) salaried employees of public school divisions covered under VRS. These employees are enrolled automatically upon employment.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13–Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Benefit Amounts

The Teacher Employee HIC Plan is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For Teacher and other professional school who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Plan (VLDP), the monthly benefit is either: \$4.00 per month, multiplied by twice the amount of service credit, or \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

HIC Plan Notes

The monthly HIC benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 1.21% of covered employee compensation for employees in the VRS Teacher Employee HIC Plan. This rate was the final approved General Assembly rate, which was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee HIC Plan were \$98,789 and \$83,436 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately \$12 million to the VRS Teacher HIC Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as a non-employer contribution.

Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB

At June 30, 2023, the school division reported a liability of \$924,170 for its proportionate share of the VRS Teacher Employee HIC Plan Net OPEB Liability. The Net VRS Teacher Employee HIC Plan OPEB Liability was measured as of June 30, 2022 and the total VRS Teacher Employee HIC Plan OPEB liability used to calculate the Net VRS Teacher Employee HIC Plan OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net VRS Teacher Employee HIC Plan OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee HIC Plan OPEB plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion of the VRS Teacher Employee HIC Plan was 0.07399% as compared to 0.07726% at June 30, 2021.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Teacher Employee HIC Plan OPEB Liabilities, Teacher Employee HIC Plan OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee HIC Plan OPEB (Continued)

For the year ended June 30, 2023, the school division recognized VRS Teacher Employee HIC Plan OPEB expense of \$28,655. Since there was a change in proportionate share between measurement dates, a portion of the VRS Teacher Employee HIC Net OPEB expense was related to deferred amounts from changes in proportionate share and differences between actual and expected contributions.

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee HIC Plan OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 37,671
Net difference between projected and actual earnings on Teacher HIC OPEB plan investments	-	928
Change in assumptions	27,000	2,360
Changes in proportionate share and differences between actual and expected contributions	46,497	190,657
Employer contributions subsequent to the measurement date	<u>98,789</u>	<u>-</u>
Total	<u>\$ 172,286</u>	<u>\$ 231,616</u>

\$98,789 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30

2024	\$ (48,023)
2025	(45,291)
2026	(34,297)
2027	(16,833)
2028	(5,088)
Thereafter	(8,587)

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13–Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee HIC Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50%-5.95%
Investment rate of return	6.75%, net of investment expenses, including inflation

Mortality Rates - Teachers

- Pre-Retirement:
 - Pub-2010 Amount Weighted Teacher Employee Rates projected generationally; 110% of rates for males
- Post-Retirement:
 - Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females
- Post-Disablement:
 - Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females
- Beneficiaries and Survivors:
 - Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally
- Mortality Improvement Scale:
 - Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Teachers (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee HIC Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Teacher Employee HIC Plan are as follows (amounts expressed in thousands):

	Teacher Employee HIC OPEB Plan
Total Teacher Employee HIC OPEB Liability	\$ 1,470,891
Plan Fiduciary Net Position	221,845
Teacher Employee net HIC OPEB Liability (Asset)	<u>\$ 1,283,569</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability	15.08%

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 13—Teacher Employee Health Insurance Credit (HIC) Plan (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by each school division for the VRS Teacher Employee HIC Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee HIC Plan net HIC OPEB liability using the discount rate of 6.75%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate		
		1% Decrease	Current Discount	1% Increase
		(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan				
Net HIC OPEB Liability	\$	1,041,550	\$ 924,170	\$ 824,669

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee HIC Plan's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Financial Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan):

Plan Description

Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their hybrid plan employees either through a local plan or through the Virginia Local Disability Program (VLDP). This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia.

The specific information for the VLDP OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Political Subdivision VLDP was implemented January 1, 2014 to provide disability benefits for non-work-related and work-related disabilities for employees with hybrid plan retirement benefits. All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision VLDP.

Benefit Amounts

The VLDP provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

The VLDP provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

VLDP Notes

Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Contributions

The contribution requirements for active hybrid plan employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2023 was 0.85% of covered employee compensation for employees in the VRS Political Subdivision VDLP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the School Board to the VRS Political Subdivision VDLP were \$4,710 and \$4,404 for the years ended June 30, 2023 and June 30, 2022, respectively.

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

At June 30, 2023, the School reported a asset of \$666 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2022 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The School Board's proportion of the Net VLDP OPEB Liability was based on the School Board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the School Board's proportion of the VLDP was 11330% as compared to 0.08359% at June 30, 2021.

For the year ended June 30, 2023, the School Board recognized VLDP OPEB expense of \$3,722. Since there was a change in proportionate share between measurement dates a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2023, the School Board reported deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 936	\$ 1,425
Net difference between projected and actual earnings on VLDP OPEB program investments	-	3
Change in assumptions	25	239
Changes in proportionate share	335	-
Employer contributions subsequent to the measurement date	<u>4,710</u>	<u>-</u>
Total	<u>\$ 6,006</u>	<u>\$ 1,667</u>

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB (Continued)

\$4,710 reported as deferred outflows of resources related to the VLDP OPEB resulting from the School Board’s contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ 32
2025	22
2026	(230)
2027	78
2028	(10)
Thereafter	(263)

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50%-5.95%
Investment rate of return	6.75%, net of program investment expenses, including inflation

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted General Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted General Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted General Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision VLDP represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Political Subdivision VLDP is as follows (amounts expressed in thousands):

		Political Subdivision VLDP OPEB Plan
		<hr/>
Total Political Subdivision VLDP OPEB Liability	\$	7,360
Plan Fiduciary Net Position		7,948
Political Subdivision VLDP Net OPEB Liability (Asset)	\$	<hr/> <hr/> (588)
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		107.99%

The total Political Subdivision VLDP OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Political Subdivision VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 14—Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total VLDP OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the School Board for the VLDP was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VLDP OPEB liability.

Sensitivity of the School Board's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the School Board's proportionate share of the net VLDP OPEB liability using the discount rate of 6.75%, as well as what the School Board's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate		
		1% Decrease	Current Discount	1% Increase
		(5.75%)	(6.75%)	(7.75%)
School Board (nonprofessional)'s proportionate share of the VLDP Net OPEB Liability	\$	71	\$ (666)	\$ (1,305)

VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision VLDP's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Annual Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Teacher Employee Virginia Local Disability Program (VLDP). This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. School divisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their hybrid plan employees either through a local plan or through the VLDP.

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Plan Description (Continued)

The specific information for the Teacher VLDP OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Teacher VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with hybrid plan retirement benefits. Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. These employees include teachers and other full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts

The Teacher VLDP provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

The Teacher VLDP provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

VLDP Notes

Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirements for active hybrid plan employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2023 was 0.47% of covered employee compensation for employees in the VRS Teacher VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee VLDP were \$22,673 and \$16,679 for the years ended June 30, 2023 and June 30, 2022, respectively.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Teacher VLDP OPEB Liabilities, Teacher VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher VLDP OPEB

At June 30, 2023, the school division reported an asset of \$496 for its proportionate share of the Teacher VLDP Net OPEB Liability. The Net Teacher VLDP OPEB Liability was measured as of June 30, 2022 and the total Teacher VLDP OPEB liability used to calculate the Net Teacher VLDP OPEB Liability was determined by an actuarial valuation as of June 30, 2021, and rolled forward to the measurement date of June 30, 2022. The school division's proportion of the Net Teacher VLDP OPEB Liability was based on the school division's actuarially determined employer contributions to the Teacher VLDP OPEB plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the school division's proportion of the Teacher VLDP was 0.44090% as compared to 0.45762% at June 30, 2021.

For the year ended June 30, 2023, the school division recognized Teacher VLDP OPEB expense of \$12,557. Since there was a change in proportionate share between measurement dates a portion of the Teacher VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2023, the school division reported deferred outflows of resources and deferred inflows of resources related to the Teacher VLDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,847	\$ 1,504
Net difference between projected and actual earnings on Teacher VLDP OPEB program investments	-	138
Change in assumptions	1,479	-
Changes in proportionate share	167	952
Employer contributions subsequent to the measurement date	22,673	-
Total	<u>\$ 30,166</u>	<u>\$ 2,594</u>

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Teacher VLDP OPEB Liabilities, Teacher VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher VLDP OPEB (Continued)

\$22,673 reported as deferred outflows of resources related to the Teacher VLDP OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher VLDP OPEB Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher VLDP OPEB will be recognized in the Teacher VLDP OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2024	\$ 302
2025	306
2026	211
2027	899
2028	464
Thereafter	2,717

Actuarial Assumptions

The total Teacher VLDP OPEB liability for the Teacher VLDP was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2022.

Inflation	2.50%
Salary increases, including inflation	3.50%-5.95%
Investment rate of return	6.75%, net of plan investment expenses, including inflation

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Teachers

Pre-Retirement:

Pub-2010 Amount Weighted Teachers Employee Rates projected generationally; 110% of rates for males

Post-Retirement:

Pub-2010 Amount Weighted Teachers Healthy Retiree Rates projected generationally; males set forward 1 year; 105% of rates for females

Post-Disablement:

Pub-2010 Amount Weighted Teachers Disabled Rates projected generationally; 110% of rates for males and females

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Teachers Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Net Teacher VLDP OPEB Liability

The net OPEB liability (NOL) for the Teacher VLDP represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2022, NOL amounts for the VRS Teacher VLDP is as follows (amounts expressed in thousands):

	Teacher VLDP OPEB Plan
	<hr/>
Total Teacher VLDP OPEB Liability	\$ 7,207
Plan Fiduciary Net Position	7,320
Teacher VLDP Net OPEB Liability (Asset)	<hr/> \$ (113) <hr/>
Plan Fiduciary Net Position as a Percentage of the Total Teacher VLDP OPEB Liability	101.57%

The total Teacher VLDP OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Teacher VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS- Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>
		Inflation	<u>2.50%</u>
		Expected arithmetic nominal return**	<u>7.83%</u>

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

**On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 15—Teacher Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Discount Rate

The discount rate used to measure the total Teacher VLDP OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the school division for the Teacher VLDP was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2022 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher VLDP OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the Teacher net VLDP OPEB liability using the discount rate of 6.75%, as well as what the school division's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

		Rate		
		1% Decrease	Current Discount	1% Increase
		(5.75%)	(6.75%)	(7.75%)
School division's proportionate share of the Teacher VLDP Net OPEB Liability		\$ 3,591	\$ (496)	\$ (4,031)

Teacher VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Teacher VLDP's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2022-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 16—Health Insurance (Single-employer Defined Benefit Plan)

Plan Description

The School Board provides postemployment medical coverage for retired employees through a single-employer defined benefit plan. The School Board may change, add or delete coverage as they deem appropriate and with the approval of the Board of Supervisors. The plan does not grant retirees vested health benefits. The Plan does not issue separate financial statements.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 16–Health Insurance (Single-employer Defined Benefit Plan): (Continued)

Benefits Provided

Employees who retire from the School Board with service eligible for VRS benefits (Plan 1 - Age 50 and 10 years of service or Age 55 and 5 years of service; Plan 2 - age 60 and 5 years of service; Hazardous duty - age 50 and 5 years of service) and who are participating in the medical coverage are eligible to elect post-retirement coverage. Retirees are eligible to remain on the medical plan with 100% of the premium paid by the retiree. The retiree’s spouse can receive benefits under the plan with the premium to be paid by the retiree. Retirees’ coverage ceases at eligibility for Medicare.

Plan Membership

At June 30, 2023 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	153
Total	153

Contributions

The School Board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the School Board.

Total OPEB Liability

The School Board’s total OPEB liabilities were measured as of June 30, 2023. The total OPEB liabilities were determined by an actuarial valuation as of July 1, 2022.

Actuarial Assumptions

The total OPEB liability in the June 30, 2023 actuarial valuations report was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Healthcare Cost Trend Rates	3.70%
Salary Increases	2.50%
Discount Rate	3.65%

Discount Rate

The discount rate has been set equal to 3.54% and represents the 20-year tax-exempt municipal bond yield as of July 1, 2022.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 16—Health Insurance (Single-employer Defined Benefit Plan): (Continued)

Changes in Total OPEB Liability

Changes in Total OPEB Liability	
	Total OPEB Liability
Balances at June 30, 2021	\$ 421,013
Changes for the year:	
Service cost	\$ 36,105
Interest	16,075
Effect of economic/demographic gains (losses)	41,097
Changes in assumptions	(33,228)
Benefit payments	(6,077)
Net changes	\$ 53,972
Balances at June 30, 2022	\$ 474,985

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.65%) or one percentage point higher (4.65%) than the current discount rate:

Rate		
1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
\$ 509,120	\$ 474,985	\$ 442,477

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liabilities of the School Board, as well as what the total OPEB liabilities would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rate used of 3.70%:

Rates		
1% Decrease (2.70%)	Healthcare Cost Trend (3.70%)	1% Increase (4.70%)
\$ 424,061	\$ 474,985	\$ 533,595

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 16—Health Insurance (Single-employer Defined Benefit Plan): (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2023, the School Board recognized OPEB expense in the amount of (\$4,412). Deferred Outflows of Resources and Deferred Inflows of Resources were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,710	\$ 72,000
Changes in assumptions	5,796	52,003
Total	<u>\$ 38,506</u>	<u>\$ 124,003</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in future reporting periods as follows:

Year Ended June 30

2024	\$ (32,139)
2025	(26,021)
2026	(26,021)
2027	(1,316)
2028	-
Thereafter	-

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the note to the financial statements.

Note 17—Aggregate OPEB Information:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Net OPEB Liability (Asset)</u>	<u>OPEB Expense</u>
VRS OPEB Plans:				
Group Life Insurance Plan (Note 11)				
School Board Nonprofessional	\$ 19,624	\$ 7,811	\$ 39,013	\$ 3,853
School Board Professional	115,084	156,792	385,070	(14,792)
Health Insurance Credit Plan (Note 12)	3,670	8,543	(6,743)	(2,402)
Teacher Health Insurance Credit Plan (Note 13)	172,286	231,616	924,170	28,655
Virginia Local Disability Plan (Note 14)	6,006	1,667	(666)	3,722
Teacher Virginia Local Disability Plan (Note 15)	30,166	2,594	(496)	12,557
School Stand-Alone Plan (Note 16)	38,506	124,003	474,985	(4,412)
Totals	<u>\$ 385,342</u>	<u>\$ 533,026</u>	<u>\$ 1,815,333</u>	<u>\$ 27,181</u>

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

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Notes to Financial Statements
At June 30, 2023 (Continued)

Note 18–Upcoming Pronouncements:

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Implementation Guide No. 2021-1, *Implementation Guidance Update–2021*, with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, *Implementation Guidance Update–2023*, effective for fiscal years beginning after June 15, 2023.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Note 19–Adoption of New Accounting Principles:

The School Board implemented provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based IT Arrangements (SBITAs)* during the fiscal year ended June 30, 2023. Statement No. 96, *SBITAs* requires recognition of certain subscription assets and liabilities for certain contracts that convey control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. No restatement of beginning net position was required as a result of this implementation. Using the facts and circumstances that existed at the beginning of the year of implementation, the following balances were recognized as of July 1, 2022 related to the subscription(s):

	Governmental Activities
Subscription assets	\$ 57,370
Subscription liabilities	\$ 57,370

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REQUIRED SUPPLEMENTARY INFORMATION

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit Of The City of Franklin, Virginia)

Exhibit 7

School Operating Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2023

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Revenue from the use of money and property	\$ -	\$ -	\$ 2,844	\$ 2,844
Charges for services	1,200	1,200	44,124	42,924
Miscellaneous	73,800	60,873	73,067	12,194
Intergovernmental:				
Local government	4,330,238	4,330,238	4,330,237	(1)
Commonwealth	8,838,035	12,158,182	12,261,140	102,958
Federal	6,894,500	9,321,831	3,442,482	(5,879,349)
Total revenues	\$ 20,137,773	\$ 25,872,324	\$ 20,153,894	\$ (5,718,430)
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 12,396,055	\$ 21,676,008	\$ 13,788,110	\$ 7,887,898
Administration, attendance and health	1,743,545	2,290,158	2,205,567	84,591
Pupil transportation	562,374	852,853	696,107	156,746
Operations and maintenance	4,521,692	2,378,392	2,062,921	315,471
Food services	129,700	45,851	3,878	41,973
Technology	1,071,834	1,231,080	1,141,571	89,509
Debt service:				
Principal retirement	176,204	176,204	194,710	(18,506)
Interest and other fiscal charges	42,577	42,577	44,417	(1,840)
Total expenditures	\$ 20,643,981	\$ 28,693,123	\$ 20,137,281	\$ 8,555,842
Excess (deficiency) of revenues over (under) expenditures	\$ (506,208)	\$ (2,820,799)	\$ 16,613	\$ 2,837,412
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (70,992)	\$ (70,992)	\$ (78,686)	\$ (7,694)
Total other financing sources (uses)	\$ (70,992)	\$ (70,992)	\$ (78,686)	\$ (7,694)
Net change in fund balances	\$ (577,200)	\$ (2,891,791)	\$ (62,073)	\$ 2,829,718
Fund balances - beginning	577,200	2,891,791	953,584	(1,938,207)
Fund balances - ending	\$ -	\$ -	\$ 891,511	\$ 891,511

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Exhibit 8

Cafeteria Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ -	\$ -	\$ 33,921	\$ 33,921
Miscellaneous	94,894	94,894	99,257	4,363
Intergovernmental:				
Commonwealth	15,593	30,762	21,196	(9,566)
Federal	774,411	774,411	832,886	58,475
Total revenues	<u>\$ 884,898</u>	<u>\$ 900,067</u>	<u>\$ 987,260</u>	<u>\$ 87,193</u>
EXPENDITURES				
Current:				
Education:				
Food services	\$ 884,898	\$ 900,067	\$ 1,125,290	\$ (225,223)
Total expenditures	<u>\$ 884,898</u>	<u>\$ 900,067</u>	<u>\$ 1,125,290</u>	<u>\$ (225,223)</u>
Net change in fund balances	\$ -	\$ -	\$ (138,030)	\$ (138,030)
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>597,104</u>	<u>597,104</u>
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 459,074</u></u>	<u><u>\$ 459,074</u></u>

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Exhibit 9

Textbook Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 15	\$ 15	\$ 12	\$ (3)
Total revenues	\$ 15	\$ 15	\$ 12	\$ (3)
EXPENDITURES				
Current:				
Education:				
Instruction	\$ 71,007	\$ 91,383	\$ 17,387	\$ 73,996
Total expenditures	\$ 71,007	\$ 91,383	\$ 17,387	\$ 73,996
Excess (deficiency) of revenues over (under) expenditures	\$ (70,992)	\$ (91,368)	\$ (17,375)	\$ 73,993
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 70,992	\$ 91,368	\$ 78,686	\$ (12,682)
Total other financing sources (uses)	\$ 70,992	\$ 91,368	\$ 78,686	\$ (12,682)
Net change in fund balances	\$ -	\$ -	\$ 61,311	\$ 61,311
Fund balances - beginning	-	-	127,244	127,244
Fund balances - ending	\$ -	\$ -	\$ 188,555	\$ 188,555

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
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Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Component Unit School Board (Nonprofessional)

Pension Plans

For the Measurement Dates of June 30, 2014 through June 30, 2022

	2022	2021
Total pension liability		
Service cost	\$ 36,531	\$ 35,960
Interest	112,906	115,649
Differences between expected and actual experience	(36,512)	(172,995)
Changes of assumptions		32,953
Benefit payments	(112,136)	(65,322)
Net change in total pension liability	\$ 789	\$ (53,755)
Total pension liability - beginning	1,692,225	1,745,980
Total pension liability - ending (a)	\$ 1,693,014	\$ 1,692,225
 Plan fiduciary net position		
Contributions - employer	\$ -	\$ (8)
Contributions - employee	29,391	23,508
Net investment income	(2,605)	539,798
Benefit payments	(112,136)	(65,322)
Administrator charges	(1,550)	(1,347)
Other	56	51
Net change in plan fiduciary net position	\$ (86,844)	\$ 496,680
Plan fiduciary net position - beginning	2,477,475	1,980,795
Plan fiduciary net position - ending (b)	\$ 2,390,631	\$ 2,477,475
 School Division's net pension liability (asset) - ending (a) - (b)	\$ (697,617)	\$ (785,250)
 Plan fiduciary net position as a percentage of the total pension liability	141.21%	146.40%
 Covered payroll	\$ 693,948	\$ 537,311
 School Division's net pension liability (asset) as a percentage of covered payroll	-100.53%	-146.14%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

2020	2019	2018	2017	2016	2015	2014
\$ 38,741	\$ 35,438	\$ 45,828	\$ 47,678	\$ 47,491	\$ 48,778	\$ 47,021
129,027	124,077	124,787	122,651	122,398	118,981	114,045
(298,266)	50,803	(48,609)	(38,551)	(77,469)	(29,062)	-
-	50,719	-	(12,055)	-	-	-
(70,058)	(174,059)	(90,246)	(88,152)	(89,460)	(90,309)	(90,796)
\$ (200,556)	\$ 86,978	\$ 31,760	\$ 31,571	\$ 2,960	\$ 48,388	\$ 70,270
1,946,536	1,859,558	1,827,798	1,796,227	1,793,267	1,744,879	1,674,609
<u>\$ 1,745,980</u>	<u>\$ 1,946,536</u>	<u>\$ 1,859,558</u>	<u>\$ 1,827,798</u>	<u>\$ 1,796,227</u>	<u>\$ 1,793,267</u>	<u>\$ 1,744,879</u>
\$ 21,147	\$ 20,202	\$ 27,277	\$ 28,347	\$ 43,846	\$ 41,701	\$ 46,023
21,812	20,302	19,115	19,721	19,491	18,929	19,200
37,605	125,501	138,802	208,126	29,837	75,954	230,671
(70,058)	(174,059)	(90,246)	(88,152)	(89,460)	(90,309)	(90,796)
(1,279)	(1,364)	(1,212)	(1,217)	(1,071)	(1,055)	(1,253)
(45)	(79)	(123)	(184)	(13)	(15)	12
\$ 9,182	\$ (9,497)	\$ 93,613	\$ 166,641	\$ 2,630	\$ 45,205	\$ 203,857
1,971,613	1,981,110	1,887,497	1,720,856	1,718,226	1,673,021	1,469,164
<u>\$ 1,980,795</u>	<u>\$ 1,971,613</u>	<u>\$ 1,981,110</u>	<u>\$ 1,887,497</u>	<u>\$ 1,720,856</u>	<u>\$ 1,718,226</u>	<u>\$ 1,673,021</u>
\$ (234,815)	\$ (25,077)	\$ (121,552)	\$ (59,699)	\$ 75,371	\$ 75,041	\$ 71,858
113.45%	101.29%	106.54%	103.27%	95.80%	95.82%	95.88%
\$ 485,278	\$ 445,056	\$ 411,802	\$ 428,732	\$ 419,188	\$ 391,523	\$ 384,283
-48.39%	-5.63%	-29.52%	-13.92%	17.98%	19.17%	18.70%

Schedule of Employer's Share of Net Pension Liability (Asset) VRS Teacher Retirement Plan
Pension Plans
For the Measurement Dates of June 30, 2014 through June 30, 2022

Date (1)	Employer's Proportion of the Net Pension Liability (Asset) (2)	Employer's Proportionate Share of the Net Pension Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (6)
2022	0.07390%	\$ 7,035,722	\$ 6,895,539	102.03%	82.61%
2021	0.07677%	5,959,730	6,833,198	87.22%	85.46%
2020	0.07200%	10,477,891	6,337,909	165.32%	71.47%
2019	0.07987%	10,511,346	6,746,816	155.80%	73.51%
2018	0.08655%	10,178,000	7,048,968	144.39%	74.81%
2017	0.09610%	11,818,000	7,636,068	154.77%	72.92%
2016	0.10034%	14,062,000	7,645,748	183.92%	68.28%
2015	0.10104%	12,717,000	6,781,114	187.54%	70.68%
2014	0.10813%	13,067,000	7,889,430	165.63%	70.88%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 12

Schedule of Employer Contributions

Pension Plans

For the Years Ended June 30, 2013 through June 30, 2022

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Component Unit School Board (Nonprofessional)					
2023	\$ -	\$ -	\$ -	\$ 700,703	0.00%
2022	-	-	-	693,948	0.00%
2021	4,833	4,833	-	537,311	0.90%
2020	24,409	24,409	-	485,278	5.03%
2019	22,387	22,387	-	445,056	5.03%
2018	29,278	29,278	-	411,802	7.11%
2017	30,483	30,483	-	428,732	7.11%
2016	44,719	44,719	-	418,188	10.69%
2015	41,697	41,697	-	391,523	10.65%
2014	46,037	46,037	-	384,283	11.98%
Component Unit School Board (Professional)					
2023	\$ 1,275,544	\$ 1,275,544	\$ -	\$ 8,164,400	15.62%
2022	1,097,787	1,097,787	-	6,895,539	15.92%
2021	1,086,028	1,086,028	-	6,833,198	15.89%
2020	993,784	993,784	-	6,337,909	15.68%
2019	1,057,678	1,057,678	-	6,746,816	15.68%
2018	1,150,064	1,150,064	-	7,048,968	16.32%
2017	1,246,206	1,246,206	-	7,636,068	16.32%
2016	1,068,615	1,068,615	-	7,645,748	13.98%
2015	1,081,012	1,081,012	-	6,781,114	15.94%
2014	481,906	481,906	-	5,390,447	8.94%
2013	498,285	498,285	-	5,573,658	8.94%

All contributions are from Virginia Retirement System records.

* Excludes contributions (mandatory and match on coluntary) to the defined contribution portion of the Hybrid plan

Notes to Required Supplementary Information
Pension Plans
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non-10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Component Unit School Board - Professional Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 14

Schedule of Board's Share of Net OPEB Liability
Group Life Insurance (GLI) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2022

Date	Employer's Proportion of the Net GLI OPEB Liability (Asset)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
(1)	(2)	(3)	(4)	(5)	(6)
School Board (Nonprofessional):					
2022	0.00320%	\$ 39,013	\$ 704,348	5.54%	67.21%
2021	0.00260%	30,620	542,148	5.65%	67.45%
2020	0.00236%	39,385	485,278	8.12%	52.64%
2019	0.00227%	36,939	445,056	8.30%	52.00%
2018	0.00217%	33,000	411,802	8.01%	51.22%
2017	0.00233%	36,000	430,203	8.37%	48.86%
School Board (Professional):					
2022	0.03200%	\$ 385,070	\$ 6,956,252	5.54%	67.21%
2021	0.03350%	389,915	6,914,197	5.64%	67.45%
2020	0.03086%	515,003	6,350,666	8.11%	52.64%
2019	0.03466%	564,011	6,794,021	8.30%	52.00%
2018	0.03732%	567,000	7,095,851	7.99%	51.22%
2017	0.04145%	624,000	7,646,683	8.16%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 15

Schedule of Employer Contributions

Group Life Insurance (GLI) Plan

For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
School Board (Nonprofessional):					
2023	\$ 3,949	\$ 3,949	\$ -	\$ 731,380	0.54%
2022	3,803	3,803	-	704,348	0.54%
2021	2,928	2,928	-	542,148	0.54%
2020	2,523	2,523	-	485,278	0.52%
2019	2,314	2,314	-	445,056	0.52%
2018	2,142	2,142	-	411,802	0.52%
2017	2,237	2,237	-	430,203	0.52%
2016	2,222	2,222	-	419,188	0.53%
2015	2,077	2,077	-	391,874	0.53%
2014	2,036	2,036	-	384,283	0.53%
School Board (Professional):					
2023	\$ 44,334	\$ 44,334	\$ -	\$ 8,209,937	0.54%
2022	37,564	37,564	-	6,956,252	0.54%
2021	37,337	37,337	-	6,914,197	0.54%
2020	33,023	33,023	-	6,350,666	0.52%
2019	35,329	35,329	-	6,794,021	0.52%
2018	36,851	36,851	-	7,095,851	0.52%
2017	39,763	39,763	-	7,646,683	0.52%
2016	40,663	40,663	-	7,672,284	0.53%
2015	39,863	39,863	-	7,521,373	0.53%
2014	42,098	42,098	-	7,943,035	0.53%

Notes to Required Supplementary Information
Group Life Insurance (GLI) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule of Changes in Total OPEB Liability and Related Ratios

OPEB - Health Insurance Plan

For the Measurement Dates of June 30, 2018 through June 30, 2023

	<u>2023</u>	<u>2022</u>
Total OPEB liability		
Service cost	\$ 36,105	\$ 34,117
Interest	16,075	10,135
Effect of economic/demographic gains (losses)	41,097	-
Effect of assumption changes or inputs	(33,228)	(42,027)
Benefit payments	(6,077)	(32,404)
Net change in total OPEB liability	\$ 53,972	\$ (30,179)
Total OPEB liability - beginning	421,013	451,192
Total OPEB liability - ending	<u>\$ 474,985</u>	<u>\$ 421,013</u>
 Covered employee payroll	 \$ 6,937,707	 \$ 6,001,573
 School Boards total OPEB liability (asset) as a percentage of covered employee payroll	 6.85%	 7.02%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Exhibit 17

<hr/>			
<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 32,279	\$ 33,362	\$ 31,736	\$ 38,938
12,796	18,757	20,012	25,284
(126,384)	-	(202,093)	-
8,129	35,010	(226)	(18,679)
(44,442)	(41,375)	(27,440)	(55,357)
<u>\$ (117,622)</u>	<u>\$ 45,754</u>	<u>\$ (178,011)</u>	<u>\$ (9,814)</u>
568,814	523,060	701,071	710,885
<u><u>\$ 451,192</u></u>	<u><u>\$ 568,814</u></u>	<u><u>\$ 523,060</u></u>	<u><u>\$ 701,071</u></u>
\$ 6,001,573	\$ 6,656,676	\$ 6,656,676	\$ 6,647,800
7.52%	8.55%	7.86%	10.55%

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 18

Notes to Required Supplementary Information

OPEB - Health Insurance Plan

For the Year Ended June 30, 2023

Valuation Date: 7/1/2022

Measurement Date: 6/30/2023

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.65%
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 3.70% and varies in subsequent years ranging from 3.70% to 6.50%.
Salary Increase Rates	The salary increase rate was an inflation rate of 2.50%, productivity component of 1.00%, and a variable merit component that is dependent on years of service.
Retirement Age	The average age of retirement is 65.
Mortality Rates	The mortality rates for pre-retirement participants was calculated using the RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. The mortality rates for active and healthy retirees was calculated using the RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85. The mortality rates for disabled retirees was calculated using the RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and 130% of rates for females.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 19

Schedule of School Board's Share of Net OPEB Liability
Teacher Employee Health Insurance Credit (HIC) Plan
For the Measurement Dates of June 30, 2017 through June 30, 2022

Date	Employer's Proportion of the Net HIC OPEB Liability	Employer's Proportionate Share of the Net HIC OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net HIC OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability
				(3)/(4)	
(1)	(2)	(3)	(4)	(5)	(6)
School Board - Professional:					
2022	0.07399%	\$ 924,170	\$ 6,895,539	13.40%	15.08%
2021	0.07726%	991,686	6,833,198	14.51%	13.15%
2020	0.07230%	943,035	6,337,909	14.88%	9.95%
2019	0.08044%	1,053,038	6,746,816	15.61%	8.97%
2018	0.08722%	1,108,000	7,054,104	15.71%	8.08%
2017	0.09670%	1,227,000	7,631,713	16.08%	7.04%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 20

Schedule of Employer Contributions

Teacher Employee Health Insurance Credit (HIC) Plan

For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
School Board - Professional:					
2023	\$ 98,789	\$ 98,789	\$ -	\$ 8,164,400	1.21%
2022	83,436	83,436	-	6,895,539	1.21%
2021	82,682	82,682	-	6,833,198	1.21%
2020	76,055	76,055	-	6,337,909	1.20%
2019	80,962	80,962	-	6,746,816	1.20%
2018	86,702	86,702	-	7,054,104	1.23%
2017	93,871	93,871	-	7,631,713	1.23%
2016	90,273	90,273	-	7,650,222	1.18%
2015	88,641	88,641	-	7,511,954	1.18%
2014	92,531	92,531	-	7,908,612	1.17%

Notes to Required Supplementary Information
Teacher Employee Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule of Changes in the Board's Net OPEB Liability and Related Ratios

Component Unit School Board (Nonprofessional)

Health Insurance Credit (HIC) Plan

For the Measurement Dates of June 30, 2017 through June 30, 2022

	<u>2022</u>	<u>2021</u>
Total pension liability		
Service cost	\$ 346	\$ 562
Interest	2,053	2,311
Changes of benefit terms	-	-
Differences between expected and actual experience	(4,695)	(3,825)
Changes of assumptions	4,299	(211)
Benefit payments	(3,249)	(2,766)
Net change in total pension liability	<u>\$ (1,246)</u>	<u>\$ (3,929)</u>
Total pension liability - beginning	<u>31,697</u>	<u>35,626</u>
Total pension liability - ending (a)	<u><u>\$ 30,451</u></u>	<u><u>\$ 31,697</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 1,110	\$ 860
Net investment income	95	8,189
Benefit payments	(3,249)	(2,766)
Administrator charges	(64)	(92)
Other	917	-
Net change in plan fiduciary net position	<u>\$ (1,191)</u>	<u>\$ 6,191</u>
Plan fiduciary net position - beginning	<u>38,385</u>	<u>32,194</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 37,194</u></u>	<u><u>\$ 38,385</u></u>
 School Division's net pension liability (asset) - ending (a) - (b)	 <u><u>\$ (6,743)</u></u>	 <u><u>\$ (6,688)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 122.14%	 121.10%
 Covered payroll	 <u><u>\$ 693,948</u></u>	 <u><u>\$ 537,311</u></u>
 School Division's net pension liability (asset) as a percentage of covered payroll	 -0.97%	 -1.24%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Exhibit 22

2020	2019	2018	2017
\$ 578	\$ 544	\$ 562	\$ 608
2,381	2,373	2,299	2,331
1,875	-	-	-
(3,047)	509	1,198	-
-	735	-	(929)
(2,856)	(2,741)	(3,241)	(1,720)
\$ (1,069)	\$ 1,420	\$ 818	\$ 290
36,695	35,275	34,457	34,167
\$ 35,626	\$ 36,695	\$ 35,275	\$ 34,457

\$ 825	\$ 756	\$ 868	\$ 900
660	2,045	2,370	3,542
(2,856)	(2,741)	(3,241)	(1,720)
(61)	(44)	(53)	(56)
-	(2)	(183)	183
\$ (1,432)	\$ 14	\$ (239)	\$ 2,849
33,626	33,612	33,851	31,002
\$ 32,194	\$ 33,626	\$ 33,612	\$ 33,851

\$ 3,432	\$ 3,069	\$ 1,663	\$ 606
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90.37% 91.64% 95.29% 98.24%

\$ 485,278	\$ 445,056	\$ 411,802	\$ 430,203
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0.71% 0.69% 0.40% 0.14%

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 23

Schedule of Employer Contributions

Health Insurance Credit (HIC) Plan

For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
School Board - Nonprofessional:					
2023	\$ -	\$ -	\$ -	\$ 700,703	0.00%
2022	1,110	1,110	-	693,948	0.16%
2021	860	860	-	537,311	0.16%
2020	825	825	-	485,278	0.17%
2019	756	756	-	445,056	0.17%
2018	865	865	-	411,802	0.21%
2017	903	903	-	430,203	0.21%
2016	964	964	-	419,188	0.23%
2015	901	901	-	391,874	0.23%
2014	1,076	1,076	-	384,283	0.28%

Notes to Required Supplementary Information
Health Insurance Credit (HIC) Plan
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021, valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate
Withdrawal Rates	Adjusted rates to better fit experience at each age and service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-	Update to Pub-2010 public sector mortality tables. Increased
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 25

Schedule of Board's Share of Net OPEB Liability

Virginia Local Disability Program (VLDP)

For the Measurement Dates of June 30, 2017 through June 30, 2022

Date	Employer's Proportion of the VLDP Net OPEB Liability (Asset)	Employer's Proportionate Share of the VLDP Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the VLDP Net OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
(1)	(2)	(3)	(4)	(5)	(6)
School Board (Nonprofessional):					
2022	0.11330% \$	(666) \$	530,659	-0.13%	107.99%
2021	0.08359%	(846)	335,766	-0.25%	119.46%
2020	0.06580%	657	245,151	0.27%	76.84%
2019	0.06310%	1,279	195,068	0.66%	49.19%
2018	0.06317%	-	153,384	0.00%	51.39%
2017	0.09421%	1,000	173,005	0.58%	38.40%
School Board (Professional):					
2022	0.44090% \$	(496) \$	3,548,638	-0.01%	101.57%
2021	0.45762%	(3,322)	3,079,324	-0.11%	114.46%
2020	0.42070%	3,375	2,488,571	0.14%	78.28%
2019	0.54769%	3,184	2,626,346	0.12%	74.12%
2018	0.63101%	5,000	2,352,849	0.21%	46.18%
2017	0.71370%	4,000	2,014,073	0.20%	31.96%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 26

Schedule of Employer Contributions
 Virginia Local Disability Program (VLDP)
 For the Years Ended June 30, 2014 through June 30, 2023

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
School Board (Nonprofessional):					
2023	\$ 4,710	\$ 4,710	\$ -	\$ 554,135	0.85%
2022	4,404	4,404	-	530,659	0.83%
2021	2,787	2,787	-	335,766	0.83%
2020	1,765	1,765	-	245,151	0.72%
2019	1,209	1,209	-	195,068	0.62%
2018	920	920	-	153,384	0.60%
2017	1,038	1,038	-	173,005	0.60%
2016	881	881	-	146,862	0.60%
2015	399	399	-	66,432	0.60%
2014	8	8	-	1,414	0.57%
School Board (Professional):					
2023	\$ 22,673	\$ 22,673	\$ -	\$ 4,823,949	0.47%
2022	16,679	16,679	-	3,548,638	0.47%
2021	14,473	14,473	-	3,079,324	0.47%
2020	10,203	10,203	-	2,488,571	0.41%
2019	10,768	10,768	-	2,626,346	0.41%
2018	7,264	7,264	-	2,352,849	0.31%
2017	6,244	6,244	-	2,014,073	0.31%
2016	4,616	4,616	-	1,591,555	0.29%
2015	2,336	2,336	-	805,456	0.29%
2014	85	85	-	29,193	0.29%

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Exhibit 27

Notes to Required Supplementary Information
Virginia Local Disability Program (VLDP)
For the Year Ended June 30, 2023

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Discount Rate	No change

OTHER SUPPLEMENTARY INFORMATION

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SUPPORTING SCHEDULES

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THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule 1
Page 1 of 3

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from use of property	\$ -	\$ -	\$ 2,844	\$ 2,844
Total revenue from use of money and property	\$ -	\$ -	\$ 2,844	\$ 2,844
Charges for services:				
Special pupil fees	\$ 1,200	\$ 1,200	\$ 44,124	\$ 42,924
Miscellaneous:				
Miscellaneous	\$ 73,800	\$ 60,873	\$ 73,067	\$ 12,194
Total revenue from local sources	\$ 75,000	\$ 62,073	\$ 120,035	\$ 57,962
Intergovernmental:				
Revenues from local governments:				
Contribution from City of Franklin, Virginia	\$ 4,330,238	\$ 4,330,238	\$ 4,330,237	\$ (1)
Total revenues from local governments	\$ 4,330,238	\$ 4,330,238	\$ 4,330,237	\$ (1)
Revenue from the Commonwealth:				
Other categorical aid:				
Share of state sales tax	\$ 1,693,628	\$ 2,084,228	\$ 1,988,897	\$ (95,331)
Basic school aid	6,679,359	8,106,519	3,258,945	(4,847,574)
Remedial education	-	-	285,741	285,741
Gifted and talented	-	-	37,961	37,961
GED prep funding (ISAEP)	-	-	8,203	8,203
Special education	-	-	551,466	551,466
Textbook payment	-	-	91,368	91,368
Vocational education	-	-	467,953	467,953
Vocational education - equipment	-	-	2,977	2,977
Group life fringe benefits	-	-	20,016	20,016
Social security fringe benefits	-	-	280,910	280,910
Retirement fringe benefits	-	-	654,306	654,306
Early reading intervention	-	-	85,402	85,402
Compensation supplement	-	-	272,241	272,241
Special education - regional	-	-	212,504	212,504
Regular - foster care	-	-	4,737	4,737
At risk payments	331,548	331,548	1,071,813	740,265
Primary class size	-	-	353,173	353,173
Virginia preschool initiative	-	-	265,774	265,774
Supplemental lottery	-	-	278,833	278,833

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule 1
Page 2 of 3

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023 (continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Other categorical aid: (Continued)				
Algebra readiness	-	-	29,707	29,707
Project graduation	-	-	4,124	4,124
VPSA technology	128,000	160,800	160,800	-
VPSA security grant	-	-	224,315	224,315
English as a second language	-	-	11,956	11,956
Workforce readiness	-	-	204	204
Industry certification costs	-	-	3,474	3,474
Hold harmless COVID-19	-	-	131,749	131,749
School construction grant	-	1,262,411	1,262,441	30
Other state funds	5,500	212,676	239,150	26,474
Total other categorical aid	\$ 8,838,035	\$ 12,158,182	\$ 12,261,140	\$ 102,958
Total revenue from the Commonwealth	\$ 8,838,035	\$ 12,158,182	\$ 12,261,140	\$ 102,958
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 1,594,000	\$ 1,626,924	\$ 653,108	\$ (973,816)
Title VI-B, special education flow-through	900,000	923,159	386,048	(537,111)
Adult basic education	22,400	24,908	20,778	(4,130)
JROTC	50,000	50,000	68,402	18,402
Title III	5,400	6,350	589	(5,761)
Title IV-A	80,000	79,702	52,067	(27,635)
Vocational education	46,000	48,882	27,318	(21,564)
Title VI-B, special education pre-school	-	5,908	-	(5,908)
Title II-A Teacher Quality	190,000	175,117	76,024	(99,093)
Title VI	43,000	54,163	41,267	(12,896)
Virginia preschool initiative	30,000	38,181	17,698	(20,483)
CARES Act ESSER	3,828,700	5,930,553	1,770,705	(4,159,848)
American Rescue Plan Act	-	200,000	171,035	(28,965)
ARPA Pandemic	-	123,141	123,141	-
Other federal funds	105,000	34,843	34,302	(541)
Total categorical aid	\$ 6,894,500	\$ 9,321,831	\$ 3,442,482	\$ (5,879,349)
Total revenue from the federal government	\$ 6,894,500	\$ 9,321,831	\$ 3,442,482	\$ (5,879,349)
Total School Operating Fund	\$ 20,137,773	\$ 25,872,324	\$ 20,153,894	\$ (5,718,430)

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule 1
Page 3 of 3

Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023 (continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Cafeteria Fund:				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	\$ -	\$ -	\$ 33,921	\$ 33,921
Miscellaneous:				
Miscellaneous	\$ 94,894	\$ 94,894	\$ 99,257	\$ 4,363
Total revenue from local sources	\$ 94,894	\$ 94,894	\$ 133,178	\$ 38,284
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
School food	\$ 15,593	\$ 30,762	\$ 21,196	\$ (9,566)
Total revenue from the Commonwealth	\$ 15,593	\$ 30,762	\$ 21,196	\$ (9,566)
Revenue from the federal government:				
Categorical aid:				
School food	\$ 774,411	\$ 774,411	\$ 832,886	\$ 58,475
Total revenue from the federal government	\$ 774,411	\$ 774,411	\$ 832,886	\$ 58,475
Total Cafeteria Fund	\$ 884,898	\$ 900,067	\$ 987,260	\$ 87,193
Textbook Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 15	\$ 15	\$ 12	\$ (3)
Total Textbook Fund	\$ 15	\$ 15	\$ 12	\$ (3)
School Activity Funds:				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous	\$ -	\$ -	\$ 334,820	\$ 334,820
Total School Activity Funds	\$ -	\$ -	\$ 334,820	\$ 334,820
Total governmental funds	\$ 21,022,686	\$ 26,772,406	\$ 21,475,986	\$ (5,296,420)

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)

Schedule 2

Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2023

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
School Operating Fund:				
Education:				
Instruction	\$ 12,396,055	\$ 21,676,008	\$ 13,788,110	\$ 7,887,898
Administration, attendance and health	1,743,545	2,290,158	2,205,567	84,591
Pupil transportation	562,374	852,853	696,107	156,746
Operations and maintenance	4,521,692	2,378,392	2,062,921	315,471
Food services	129,700	45,851	3,878	41,973
Technology	1,071,834	1,231,080	1,141,571	89,509
Total education	\$ 20,425,200	\$ 28,474,342	\$ 19,898,154	\$ 8,576,188
Debt service:				
Principal retirement	\$ 176,204	\$ 176,204	\$ 194,710	\$ (18,506)
Interest and other fiscal charges	42,577	42,577	44,417	(1,840)
Total debt service	\$ 218,781	\$ 218,781	\$ 239,127	\$ (20,346)
Total School Operating Fund	\$ 20,643,981	\$ 28,693,123	\$ 20,137,281	\$ 8,555,842
Cafeteria Fund:				
Education:				
Food services	\$ 884,898	\$ 900,067	\$ 1,125,290	\$ (225,223)
Total Cafeteria Fund	\$ 884,898	\$ 900,067	\$ 1,125,290	\$ (225,223)
Textbook Fund:				
Education:				
Instruction	\$ 71,007	\$ 91,383	\$ 17,387	\$ 73,996
Total Textbook Fund	\$ 71,007	\$ 91,383	\$ 17,387	\$ 73,996
School Activity Funds:				
Education:				
Instruction	\$ -	\$ -	\$ 340,554	\$ (340,554)
Total School Activity Funds	\$ -	\$ -	\$ 340,554	\$ (340,554)
Total governmental funds	\$ 21,599,886	\$ 29,684,573	\$ 21,620,512	\$ 8,064,061

COMPLIANCE

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**Independent Auditors' 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***

**To the Honorable Members of the School Board
City of Franklin, Virginia**

We have audited, in accordance with the 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 the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and each major fund of the School Board of the City of Franklin, Virginia, a component unit of the City of Franklin, Virginia, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School Board of the City of Franklin, Virginia's basic financial statements, and have issued our report dated November 6, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School Board of the City of Franklin, Virginia's internal control over financial reporting (internal control) as a basis for designing 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 School Board of the City of Franklin, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the School Board of the City of Franklin, Virginia'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 a 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 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Board of the City of Franklin, Virginia'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 financial statements. 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 tests disclosed one instance of noncompliance that is required to be reported under *Governmental Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs at item 2023-001.

School Board of the City of Franklin, Virginia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on School Board of the City of Franklin, Virginia's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. School Board of the City of Franklin, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and 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 School Board of the City of Franklin, Virginia's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farnum, Cox Associates

Richmond, Virginia
November 6, 2023



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

**Independent Auditors' Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance**

**To the Honorable Members of the School Board
City of Franklin, Virginia**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the School Board of the City of Franklin, Virginia, a component unit of the City of Franklin, Virginia's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School Board of the City of Franklin, Virginia's major federal programs for the year ended June 30, 2023. The School Board of the City of Franklin, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School Board of the City of Franklin, Virginia complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School Board of the City of Franklin, Virginia and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School Board of the City of Franklin, Virginia's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School Board of the City of Franklin, Virginia's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School Board of the City of Franklin, Virginia's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School Board of the City of Franklin, Virginia's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School Board of the City of Franklin, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School Board of the City of Franklin, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School Board of the City of Franklin, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Report on Internal Control over Compliance (Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farnum, Cox Associates

Richmond, Virginia
November 6, 2023

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
(A Component Unit of the City of Franklin, Virginia)
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Agriculture:			
Pass-Through Payments:			
Child Nutrition Cluster:			
Department of Health:			
Summer Food Service Program for Children	10.559	17901	\$ 33,091
Department of Agriculture:			
Food Distribution	10.555	17901-45707	\$ 67,845
Department of Education:			
National School Lunch Program	10.555	17901-40623	475,497
Total CFDA# 10.555			<u>\$ 543,342</u>
School Breakfast Program	10.553	17901-40591	218,497
Total Child Nutrition Cluster			<u>\$ 794,930</u>
Pass-Through Payments:			
Department of Education:			
Child and Adult Care Food Program	10.558	17901-70027	34,821
COVID-19 Pandemic EBT Administrative Costs	10.649	17901-86506	3,135
Total Department of Agriculture - pass-through payments			<u>\$ 832,886</u>
Total Department of Agriculture			<u>\$ 832,886</u>
Department of Education:			
Direct Payments:			
Adult Education - Basic Grants to States	84.002	N/A	\$ 26,014
English Language Acquisition State Grants	84.365	N/A	589
Pass-Through Payments:			
Title I Grants to Local Educational Agencies	84.010	17901-42901	653,108
Special Education Cluster:			
Special Education - Grants to States (Idea Part B)	84.027	17901-43071	\$ 386,048
Special Education - Preschool Grants (Idea Preschool)	84.173	17901-62521	17,699
Total Special Education Cluster			<u>403,747</u>
Career and Technical Education - Basic Grants to States	84.048	17901-61095	27,318
Rural Education	84.358	17901-43481	41,267
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	17901-61480	76,024
Student Support and Academic Enrichment Program	84.424	17901-60281	52,067
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	17901-60177	\$ 613,713
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER)	84.425U	17901-50193	1,131,057
Total 84.425			<u>1,744,770</u>
Total Department of Education			<u>\$ 3,024,904</u>
Department of Treasury:			
Pass-Through Payments:			
Department of Accounts:			
Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)	21.027	17901-60054	\$ 349,176
Department of Defense:			
Direct Payments:			
ROTC	12.U01	N/A	\$ 68,402
Total Expenditures of Federal Awards			<u>\$ 4,275,368</u>

See accompanying notes to schedule of expenditures of federal awards.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School Board of the City of Franklin, Virginia under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the School Board of the City of Franklin, Virginia it is not intended to be and does not present the financial position, changes in net position, or cash flows of the School Board of the City of Franklin, Virginia.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3 - Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of commodities received or disbursed.

Note 4 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the School Board's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:	
School Operating Fund	\$ 3,442,482
Cafeteria Fund	<u>832,886</u>
Total federal expenditures per basic financial statements	\$ <u><u>4,275,368</u></u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u><u>4,275,368</u></u>

Note 5 - Subrecipients

No awards were passed through to subrecipients.

Note 6 - De Minimis Cost Rate

The School Board did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note 7 - Loan Balances

The School Board has no loans or loan guarantees which are subject to reporting requirements for the current year.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes ✓ no

Significant deficiency(ies) identified? _____ yes ✓ none reported

Noncompliance material to financial statements noted? _____ yes ✓ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes ✓ no

Significant deficiency(ies) identified? _____ yes ✓ none reported

Type of auditors' report issued on compliance
for major programs: unmodified

Any findings disclosed that are required to be
reported in accordance with 2 CFR section 200.516(a)? _____ yes ✓ no

Identification of major programs:

Assistance Listing Number(s)

21.027
84.425D/84.425U

Name of Federal Program or Cluster

Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)
Education Stabilization Fund (ESF)

Dollar threshold used to distinguish between type A
and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

✓ yes _____ no

Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section IV-Commonwealth of Virginia Findings and Questioned Costs

Finding 2023-001:

Criteria:

Section 22.1-92 of the *Code of Virginia* requires that before any School Board gives final approval to its budget for submission to the governing body, the school board must hold at least one public hearing to receive the view of citizens within the school division. The School Board shall cause public notice to be given at least 10 days prior to the public hearing by publication in a newspaper of general circulation in the School Division.

Condition:

The School Board held their public hearing on March 3, 2022 on the FY23 budget but did not provide 10 days of public notice to the citizens within the school division. The public hearing was local newspaper on February 23, 2022.

Effect:

The citizens within the school division were not given ample notice to attend the public hearing of the FY23 School Board Budget.

Cause:

Procedures were not in place to ensure that the public hearing was advertised 10 days prior to the date of the public hearing.

Recommendation:

School Board management should have procedures in place to ensure that the public hearing is properly advertised in accordance with the requirements of the *Code of Virginia*.

Management's Recommendation:

The School Board office is making corrective action for FY24.

THE SCHOOL BOARD OF THE CITY OF FRANKLIN, VIRGINIA

(A Component Unit of the City of Franklin, Virginia)

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

Findings - Commonwealth of Virginia:

Finding 2022-001: Virginia Public Procurement Act

Condition:

The School Board entered into an agreement for \$238,670 for an HVAC system. However, there was no documentation to indicate that procurement had been performed to select a vendor.

Recommendation:

The School Board needs to adhere to the requirements of their purchasing policy as well as the requirements of the Virginia Public Procurement Act.

Current Status:

Corrective action was noted during the audit for the year ended June 30, 2023.