REPORT NO. 2014-132
MARCH 2014

LEVY COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	District No.
Cameron A. Asbell, Vice Chair to 11-19-12, Chair from 11-20-12	1
Beth Davis to 11-19-12	2
Christopher A. Cowart from 11-20-12	2
Robert E. Philpot, Vice Chair from 11-20-12	3
Paige Brookins, Chair to 11-19-12	4
Rick Turner	5

Robert O. Hastings, Superintendent

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Debra L. Hulse, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 1: The District could improve controls over land contracts.

Finding No. 2: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 3: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 4: Controls over information technology access privileges could be enhanced.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, School Improvement Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Levy County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**
- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and**
- **Taken corrective actions for findings included in our report No. 2013-141.**

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Levy County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 24 percent of the assets and 62 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, as described in note I.B to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Levy County District School Board as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN**, and **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is 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 a report on our consideration of the Levy County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 5, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Levy County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- The District's total net position decreased $1,921,106.06, which represents a 3.5 percent decrease from the 2011-12 fiscal year.
- During the current fiscal year, General Fund expenditures exceeded revenues by $1,565,543.71. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by $3,964,775.81. Overall, after considering the effects of interfund transfers and insurance proceeds, the General Fund fund balance increased over the last fiscal year by $138,326.97.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. Assets less liabilities equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – Includes the Levy County Public Facilities Finance Authority, Inc. (Authority), which was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the School Board and the Authority, the financial activities of the Authority are blended in the accompanying basic financial statements.

  In addition, the District presents two separate legal entities in this report as discretely presented component units: Whispering Winds Charter School Project, Inc., and Nature Coast Middle School, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the District.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of two broad categories discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Other Federal Programs Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and major Special Revenue Funds to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses agency funds to account for resources held for student activities and groups and to account for activity of the employee medical and dependent care reimbursement program and the health reimbursement arrangement.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide other postemployment benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2013, compared to net position as of June 30, 2012:

Net Position, End of Year

	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	$ 11,639,541.21	$ 11,449,842.37
Capital Assets	56,425,298.08	59,144,716.84
Total Assets	68,064,839.29	70,594,559.21
Long-Term Liabilities	13,186,412.34	13,595,507.05
Other Liabilities	1,241,218.88	1,440,738.03
Total Liabilities	14,427,631.22	15,036,245.08
Net Position:		
Net Investment in Capital Assets	47,645,298.08	49,749,716.84
Restricted	9,120,304.96	8,457,652.54
Unrestricted Deficit	(3,128,394.97)	(2,649,055.25)
Total Net Position	$ 53,637,208.07	$ 55,558,314.13

The total net position decreased $1,921,106.06 from the previous fiscal year. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities by $53,637,208.07 at the close of the fiscal year. By far, the largest portion of the District's net position (88.8 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to educate the students of Levy County; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position represents resources that are subject to external restrictions such as State required carryover programs, debt service, capital projects, food service and other purposes. Compensated absences of $3,414,915.34 and other postemployment benefits payable of $991,497 further reduce the remaining balance of the unrestricted net position and are recognized as amounts that may be needed to meet future obligations.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-13	6-30-12
Program Revenues:		
Charges for Services	$ 459,880.21	$ 496,265.94
Operating Grants and Contributions	2,197,217.37	2,278,306.40
Capital Grants and Contributions	238,747.59	333,822.09
General Revenues:		
Property Taxes, Levied for Operational Purposes	9,944,297.05	11,193,602.28
Property Taxes, Levied for Capital Projects	2,574,597.28	2,780,098.79
Grants and Contributions Not Restricted to Specific Programs	33,000,991.22	32,242,608.04
Unrestricted Investment Earnings	27,469.77	10,697.29
Miscellaneous	831,138.83	988,191.94
Total Revenues	49,274,339.32	50,323,592.77
Functions/Program Expenses:		
Instruction	25,969,745.11	27,603,834.63
Pupil Personnel Services	1,962,315.04	1,986,572.74
Instructional Media Services	511,833.12	643,150.76
Instruction and Curriculum Development Services	1,229,095.12	1,327,823.82
Instructional Staff Training Services	1,059,393.21	1,515,135.91
Instruction Related Technology	165,713.63	195,260.43
School Board	247,316.99	236,646.69
General Administration	1,203,805.93	1,193,072.66
School Administration	2,945,750.57	3,150,250.53
Facilities Acquisition and Construction	680,030.15	422,836.63
Fiscal Services	412,670.59	412,284.34
Food Services	2,597,453.71	2,527,613.36
Central Services	379,395.12	340,459.86
Pupil Transportation Services	3,902,091.50	3,942,774.18
Operation of Plant	3,352,771.81	3,524,948.65
Maintenance of Plant	957,588.42	1,020,370.38
Administrative Technology Services	594,017.95	576,953.61
Unallocated Interest on Long-Term Debt	391,410.36	411,960.88
Unallocated Depreciation Expense	2,633,047.05	2,712,929.35
Total Functions/Program Expenses	51,195,445.38	53,744,879.41
Change in Net Position	(1,921,106.06)	(3,421,286.64)
Net Position - Beginning	55,558,314.13	58,979,600.77
Net Postion - Ending	$ 53,637,208.07	$ 55,558,314.13

Governmental activities decreased the District's net position by $1,921,106.06. Significant changes in revenues and expenses that contributed to the change in net position are as follows:

- Grants and Contributions not Restricted to Specific Programs increased by $758,383.18, primarily the result of increased Florida Education Finance Program (FEFP) funding.
- Property Taxes, Levied for Operational Purposes decreased by $1,249.305.23, primarily from decreased property values and a decrease in the required local effort millage.
- Instruction expenses declined by $1,634,089.52, primarily from reduced staffing levels caused by expiration of most American Recovery and Reinvestment Act (ARRA) programs and budget reductions in the General Fund.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The District receives funding for current education from local, State, and Federal sources. Revenue from local sources is primarily generated by ad valorem property taxes. Revenues from State sources for current operations are primarily received through the FEFP funding formula. Federal awards are received for the enhancement of various educational programs, including Title I, National School Lunch, and others. Funding for current education operations received from local, State, and Federal sources totaled $48,961,570.70, comprised of local revenues of $13,527,864.52 (27.6 percent); State revenues of $27,244,906.80 (55.7 percent); and Federal revenues of $8,188,799.38 (16.7 percent).

Major Governmental Funds

General Fund revenues and other financing sources were greater than expenditures and other financing uses by $138,326.97, increasing fund balance of the General Fund to $1,743,879.95 at June 30, 2013. State revenues increased $1,830,403, primarily from increased FEFP revenues. Local property taxes decreased $1,249,305.23, as noted for reasons stated above. In addition, the District decreased expenditures by $1,819,682.36, primarily from cost containment measures (e.g., reducing staffing, contractual services, supplies, and extra work hours). The total fund balance represents 4.7 percent of total revenues available to the District. Some of the balance is considered nonspendable ($16,866.79), some is restricted for State required carryover programs ($170,967.43) and fuel tax refund collections ($303,125.12), and some is assigned for purchase commitments and local programs ($248,023.34), which leaves an unassigned fund balance of $1,004,487.27, or 2.7 percent of total revenues.

The Special Revenue – Other Federal Programs Fund reported revenues and expenditures of $4,640,881.68 each, and ended the fiscal year with no fund balance. The expenditures were for the continuation of Federal-related educational programs, primarily for the Title I and Special Education programs. Because revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Special Revenue – Federal Economic Stimulus Fund reported revenues and expenditures of $1,090,313.99 each, and ended the fiscal year with no fund balance. The expenditures were for authorized purposes under ARRA, including a School Improvement Grant awarded to Williston High School and the Race-to-the-Top program. Because revenues and expenditures accounted for in this fund are recognized like the Special Revenue – Other Fund, this fund generally does not accumulate a fund balance.

The Debt Service – Other Fund reported other financing sources and expenditures of $660,507.52 each, and ended the fiscal year with no fund balance. Expenditures were made to pay the scheduled principal and interest costs associated with the District's certificates of participation.

The Capital Projects – Local Capital Improvement Fund reported revenues and other financing sources and expenditures and other financing uses of $2,614,606.08 and $2,074,686.63, respectively, and ended the fiscal year with

a fund balance of $7,663,182.63. The expenditures and other financing uses were primarily for maintenance and repair, debt service, and property and casualty insurance premiums.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to Florida law and is on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the course of the 2012-13 fiscal year, the District amended its General Fund budget as needed. The District uses school-based budgeting for nonpersonnel, nonenergy, and nonfixed cost items. Schools are allocated budgets based on student enrollment.

For the General Fund, differences between the final budgeted revenues and final budgeted expenditures as compared to the original budget were insignificant. Similarly, the final revenues actually collected and the final expenditures actually incurred were not significantly different from the original and final budgets. None of these differences are expected to have a significant effect on future services or liquidity.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of the 2012-13 fiscal year, the District had $56,425,298.08 invested in capital assets, net of depreciation. The following table compares balances at June 30, 2013, with those of the prior fiscal year:

Capital Assets
(Net of Depreciation)

	6-30-13	6-30-12
Land	$ 1,632,926.07	$ 1,632,926.07
Construction in Progress		23,986.63
Improvements Other Than Buildings	2,333,900.71	2,528,523.88
Buildings and Fixed Equipment	50,619,219.02	52,553,187.38
Furnitures, Fixtures, and Equipment	325,426.25	383,912.04
Motor Vehicles	1,243,319.76	1,593,237.02
Computer Software	270,506.27	428,943.82
Total Capital Assets	$ 56,425,298.08	$ 59,144,716.84

Additional information on the District's capital assets can be found in notes I.F.4 and II.C to the financial statements.

Long-Term Debt

At June 30, 2013, the District had total long-term debt outstanding of $8,780,000, comprised of $2,620,000 of bonds payable and $6,160,000 of certificates of participation payable. During the current fiscal year, retirement of debt totaled $615,000.

Additional information on the District's long-term debt can be found in note II.H to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The primary source of revenue from the State for the District is based on the number of full-time equivalent students (FTE) counted in October and February. The FTE for the District stabilized in the 2011-12 fiscal year but continued its decline in the 2012-13 fiscal year. Outlined below is a five-year history of FTE information:

	Fiscal Year				
	2008-09	2009-10	2010-11	2011-12	2012-13
FTE	5,973	5,819	5,626	5,624	5,585

The Districted operated 13 schools during the 2012-13 school year, including 4 elementary schools, 2 middle schools, 3 high schools, 1 K-8 school, 1 K-12 school, and 2 special facilities. In addition, the District sponsored 2 charter schools, Whispering Winds Charter School Project, Inc., and Nature Coast Middle School, Inc.

The District is facing uncertain economic times and must adapt to the new realities. The impact of the continuing decline in property values remains unknown at this time. The District is rural and has unique issues concerning the operations of its 13 school sites. In light of uncertain economic times, District staff continually monitor the District's financial position. The Board must continue to be vigilant in monitoring its resources to meet the demands of the State's public education system.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Levy County District School Board, at P.O. Box 129, Bronson, Florida 32621. The District's physical address is 480 Marshburn Drive, Bronson, Florida.

BASIC FINANCIAL STATEMENTS

LEVY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government	Component Units
	Governmental Activities	
ASSETS		
Cash and Cash Equivalents	$ 10,384,721.80	$ 195,740.00
Cash with Fiscal Agent	530,253.76	
Investments	44,523.79	
Accounts Receivable		85.00
Deposits Receivable		880.00
Due from Other Agencies	506,666.45	
Prepaid Items		5,578.00
Inventories	173,375.41	
Capital Assets:		
Nondepreciable Capital Assets	1,632,926.07	69,505.00
Depreciable Capital Assets, Net	54,792,372.01	648,151.00
TOTAL ASSETS	68,064,839.29	919,939.00
LIABILITIES		
Salaries and Benefits Payable	315,858.19	18,384.00
Payroll Deductions and Withholdings	120,058.12	
Accounts Payable	175,892.80	21,785.00
Construction Contracts Payable	60,080.00	
Due to Other Agencies	252.00	
Unearned Revenue	38,824.01	
Matured Certificates of Participation Payable	400,000.00	
Matured Interest Payable	130,253.76	
Long-Term Liabilities:		
Portion Due Within One Year	1,045,303.49	20,049.00
Portion Due After One Year	12,141,108.85	256,550.00
TOTAL LIABILITIES	14,427,631.22	316,768.00
NET POSITION		
Net Investment in Capital Assets	47,645,298.08	441,057.00
Restricted for:		
State Required Carryover Programs	170,967.43	
Debt Service	35,391.37	
Capital Projects	8,206,036.25	
Food Service	404,784.79	
Fuel Tax Refund	303,125.12	
Other Purposes		8,908.00
Unrestricted	(3,128,394.97)	153,206.00
TOTAL NET POSITION	$ 53,637,208.07	$ 603,171.00

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

LEVY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	$ 25,969,745.11	$ 49,720.50	$	$
Pupil Personnel Services	1,962,315.04			
Instructional Media Services	511,833.12			
Instruction and Curriculum Development Services	1,229,095.12			
Instructional Staff Training Services	1,059,393.21			
Instruction Related Technology	165,713.63			
School Board	247,316.99			
General Administration	1,203,805.93			
School Administration	2,945,750.57			
Facilities Acquisition and Construction	680,030.15			37,797.53
Fiscal Services	412,670.59			
Food Services	2,597,453.71	383,526.12	2,197,217.37	
Central Services	379,395.12			
Pupil Transportation Services	3,902,091.50	26,633.59		
Operation of Plant	3,352,771.81			3,250.00
Maintenance of Plant	957,588.42			
Administrative Technology Services	594,017.95			
Unallocated Interest on Long-Term Debt	391,410.36			197,700.06
Unallocated Depreciation Expense*	2,633,047.05			
Total Primary Government	$ 51,195,445.38	$ 459,880.21	$ 2,197,217.37	$ 238,747.59
Component Units				
Charter Schools	$ 1,580,489.00	$ 12,345.00	$ 43,252.00	$ 66,012.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component Units
Governmental Activities	
$ (25,920,024.61)	$
(1,962,315.04)	
(511,833.12)	
(1,229,095.12)	
(1,059,393.21)	
(165,713.63)	
(247,316.99)	
(1,203,805.93)	
(2,945,750.57)	
(642,232.62)	
(412,670.59)	
(16,710.22)	
(379,395.12)	
(3,875,457.91)	
(3,349,521.81)	
(957,588.42)	
(594,017.95)	
(193,710.30)	
(2,633,047.05)	
(48,299,600.21)	
	(1,458,880.00)
9,944,297.05	
2,574,597.28	
33,000,991.22	1,316,523.00
27,469.77	108.00
831,138.83	
46,378,494.15	1,316,631.00
(1,921,106.06)	(142,249.00)
55,558,314.13	745,420.00
$ 53,637,208.07	$ 603,171.00

LEVY COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	$ 1,869,422.85	$ 35,409.57	$ 53,324.98
Cash with Fiscal Agent			
Investments	16,866.79		
Due from Other Funds	3,506.13	4,021.66	10,545.16
Due from Other Agencies	385,344.62	36,532.30	17,129.11
Inventories			
TOTAL ASSETS	$ 2,275,140.39	$ 75,963.53	$ 80,999.25
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 272,831.17	$ 34,231.44	$ 2,546.84
Payroll Deductions and Withholdings	120,058.12		
Accounts Payable	89,858.04	4,292.04	64,907.25
Construction Contracts Payable			
Due to Other Funds	45,600.30	1,276.85	13,545.16
Due to Other Agencies	252.00		
Unearned Revenue	2,660.81	36,163.20	
Matured Certificates of Participation Payable			
Matured Interest Payable			
Total Liabilities	531,260.44	75,963.53	80,999.25
Fund Balances:			
Nonspendable:			
Fund B Investments	16,866.79		
Inventories			
Total Nonspendable	16,866.79		
Restricted for:			
State Required Carryover Programs	170,967.43		
Debt Service			
Capital Projects			
Food Service			
Fuel Tax Refund	303,125.12		
Total Restricted Fund Balance	474,092.55		
Assigned for:			
Capital Projects			
Local Programs	203,032.63		
Purchase Commitments	44,990.71		
Total Assigned Fund Balance	248,023.34		
Unassigned Fund Balance	1,004,897.27		
Total Fund Balances	1,743,879.95		
TOTAL LIABILITIES AND FUND BALANCES	$ 2,275,140.39	$ 75,963.53	$ 80,999.25

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

Debt Service-Other Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$ 7,621,614.45	$ 804,949.95	$ 10,384,721.80
530,253.76			530,253.76
	225.28	27,431.72	44,523.79
	44,415.36	1,019.24	63,507.55
		67,660.42	506,666.45
		173,375.41	173,375.41
$ 530,253.76	$ 7,666,255.09	$ 1,074,436.74	$ 11,703,048.76
$	$	$ 6,248.74	$ 315,858.19
			120,058.12
	1,006.46	15,829.01	175,892.80
		60,080.00	60,080.00
	2,066.00	1,019.24	63,507.55
			252.00
			38,824.01
400,000.00			400,000.00
130,253.76			130,253.76
530,253.76	3,072.46	83,176.99	1,304,726.43
	225.28	1,808.60	18,900.67
		173,375.41	173,375.41
	225.28	175,184.01	192,276.08
			170,967.43
		34,693.32	34,693.32
	7,662,957.35	541,758.01	8,204,715.36
		231,409.38	231,409.38
			303,125.12
	7,662,957.35	807,860.71	8,944,910.61
		8,215.03	8,215.03
			203,032.63
			44,990.71
		8,215.03	256,238.37
			1,004,897.27
	7,663,182.63	991,259.75	10,398,322.33
$ 530,253.76	$ 7,666,255.09	$ 1,074,436.74	$ 11,703,048.76

LEVY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds		$ 10,398,322.33
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		56,425,298.08
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Certificates of Participation Payable	$ 6,160,000.00	
Bonds Payable	2,620,000.00	
Compensated Absences Payable	3,414,915.34	
Other Postemployment Benefits Payable	991,497.00	(13,186,412.34)
Net Position - Governmental Activities		$ 53,637,208.07

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

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LEVY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 50,558.33	$ 36,291.02	$
Federal Through State and Local	250,614.01	4,604,590.66	1,090,313.99
State	26,469,943.87		
Local:			
Property Taxes	9,944,297.05		
Impact Fees			
Charges for Services - Food Service			
Miscellaneous	531,445.93		
Total Local Revenues	10,475,742.98		
Total Revenues	37,246,859.19	4,640,881.68	1,090,313.99
Expenditures			
Current - Education:			
Instruction	22,194,416.11	3,014,726.47	642,835.35
Pupil Personnel Services	1,764,987.47	128,790.85	59,173.21
Instructional Media Services	497,913.85	9,100.54	2,177.23
Instruction and Curriculum Development Services	608,792.87	507,422.41	109,650.11
Instructional Staff Training Services	209,030.16	714,240.05	135,014.06
Instruction Related Technology	120,146.47	44,929.77	
School Board	246,011.86		
General Administration	1,070,668.51	126,114.85	1,342.52
School Administration	2,923,549.43	296.66	6,394.64
Facilities Acquisition and Construction	30,234.48		
Fiscal Services	410,492.87		
Food Services			
Central Services	349,600.59	26,922.19	1,017.65
Pupil Transportation Services	3,517,478.69	27,220.37	
Operation of Plant	3,335,078.74		
Maintenance of Plant	948,426.01		
Administrative Technology Services	577,602.80		13,350.90
Fixed Capital Outlay:			
Facilities Acquisition and Construction			71,959.87
Other Capital Outlay	7,971.99	41,117.52	47,398.45
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	38,812,402.90	4,640,881.68	1,090,313.99
Excess (Deficiency) of Revenues Over Expenditures	(1,565,543.71)		
Other Financing Sources (Uses)			
Transfers In	1,410,348.17		
Insurance Loss Recoveries	309,518.62		
Transfers Out	(15,996.11)		
Total Other Financing Sources (Uses)	1,703,870.68		
Net Change in Fund Balances	138,326.97		
Fund Balances, Beginning	1,605,552.98		
Fund Balances, Ending	$ 1,743,879.95	$ 0.00	$ 0.00

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

Debt Service - Other Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$ 86,849.35
		2,156,431.37	8,101,950.03
		774,962.93	27,244,906.80
	2,574,597.28		12,518,894.33
		61,215.90	61,215.90
		383,526.12	383,526.12
	30,028.69	2,753.55	564,228.17
	2,604,625.97	447,495.57	13,527,864.52
	2,604,625.97	3,378,889.87	48,961,570.70
			25,851,977.93
			1,952,951.53
			509,191.62
			1,225,865.39
			1,058,284.27
			165,076.24
			246,011.86
			1,198,125.88
			2,930,240.73
	345,121.34	304,494.30	679,850.12
			410,492.87
		2,597,453.71	2,597,453.71
			377,540.43
			3,544,699.06
			3,335,078.74
			948,426.01
			590,953.70
		60,080.00	132,039.87
	17,439.96	7,273.09	121,201.01
400,000.00		215,000.00	615,000.00
260,507.52	2,566.00	128,336.84	391,410.36
660,507.52	365,127.30	3,312,637.94	48,881,871.33
(660,507.52)	2,239,498.67	66,251.93	79,699.37
660,507.52	9,980.11	6,016.00	2,086,851.80
			309,518.62
	(1,709,559.33)	(361,296.36)	(2,086,851.80)
660,507.52	(1,699,579.22)	(355,280.36)	309,518.62
	539,919.45	(289,028.43)	389,217.99
	7,123,263.18	1,280,288.18	10,009,104.34
$ 0.00	$ 7,663,182.63	$ 991,259.75	$ 10,398,322.33

LEVY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Net Change in Fund Balances - Governmental Funds		$ 389,217.99
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year.		(2,722,668.76)
Donated capital assets are reported as revenue in the statement of activities but do not provide current financial resources and therefore are not reported in the governmental funds.		3,250.00
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayments in the current fiscal year:		
Certificates of Participation Payments	$ 400,000.00	
Bonds Payments	215,000.00	615,000.00
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the current fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.		26,479.71
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(232,385.00)
Change in Net Position - Governmental Activities		$ (1,921,106.06)

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

LEVY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2013

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	561,675.44
Accounts Receivable		990.00
TOTAL ASSETS	$	562,665.44
LIABILITIES		
Accounts Payable	$	12,275.00
Deposits Payable		162,794.44
Internal Accounts Payable		387,596.00
TOTAL LIABILITIES	$	562,665.44

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

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from certain legally separate component units for which the primary government is financial accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Levy County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments are allocated to the pupil transportation services and maintenance of plant functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Levy County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Levy County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. A blended component unit, is in substance, part of the primary District's operations, even though it is a legally separate entity. Thus, the blended component unit is appropriately presented as part of the District. The Levy County Public Facilities Finance Authority, Inc. (Authority), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note II.H.1. Due to the substantive economic relationship between the District and the Authority, the

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

financial activities of the Authority are included in the accompanying basic financial statements. Separate financial statements for the Authority are not published.

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the two charter schools: Whispering Winds Charter School Project, Inc., and Nature Coast Middle School, Inc. A separate column is used to emphasize that they are legally separate from the District.

The charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Board. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charters, which are tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District. The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2013, which are on file at the District's administrative office.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements.

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds and blended component units. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- Debt Service – Other Fund – to account for the financial resources used for the payment of debt service requirements of the District's certificates of participation that have been issued for capital construction.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities; to account for the activity of the medical and dependent reimbursement program, which is administered by a third-party administrator and available to employees through the District's cafeteria plan; and to account for the health reimbursement arrangement, which is administered by a third-party administrator and available to employees.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds are eliminated from governmental activities in the preparation of the government-wide financial statements.

E. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become 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. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

period for this revenue source (within 60 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys and amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District food service operations. Inventories are stated at cost based on the last invoice, which approximates the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $1,000 for vehicles and equipment and $10,000 for buildings and improvements, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the composite method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other Than Buildings	20 years
Buildings and Fixed Equipment	40 years
Furniture, Fixtures, and Equipment	5 years
Motor Vehicles	8 years
Computer Software	5 years

Current year information relative to changes in capital assets is described in a subsequent note.

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

Changes in long-term liabilities for the current year are reported in a subsequent note.

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6. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of assigned and unassigned fund balance). To calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, assigned fund balance is applied first and unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 2013.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The Board has established Board Policy 7.01 authorizing the finance director to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

A schedule of revenue from State sources for the current year is presented in a subsequent note.

3. District Property Taxes

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Levy County Property Appraiser, and property taxes are collected by the Levy County Tax Collector.

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The Board adopted the 2012 tax levy on September 4, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Levy County Tax Collector at fiscal year-end but not yet remitted to the District.

Millages and taxes levied for the current year are presented in a subsequent note.

4. Educational Impact Fees

Levy County (County) imposes an educational impact fee based on an ordinance adopted by the County Commission in January 2008. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition, facility design and construction costs, acquisition of furniture and equipment, and payment of principal, interest, and related costs of indebtedness necessitated by new residential development.

5. Federal Revenue Sources

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

6. Compensated Absences

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

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II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

B. Investments

As of June 30, 2013, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration:		
Florida PRIME (1)	40 Day Average	$ 6,480,743.81
Fund B	3.98 Year Average	18,900.67
Debt Service Accounts	6 Months	25,623.12
Total Investments, Reporting Entity		$ 6,525,267.60

Note: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

- Interest Rate Risk

  Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

  Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

  Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section

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280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to bids from qualified depositories, financial deposit instruments insured by the Federal Deposit Insurance Corporation, time deposits, securities of the United States Government and other forms of authorized investments as authorized by Section 218.415, Florida Statutes, as well as Florida PRIME.

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

The District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 1,632,926.07	$	$	$ 1,632,926.07
Construction in Progress	23,986.63		23,986.63	
Total Capital Assets Not Being Depreciated	1,656,912.70		23,986.63	1,632,926.07
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,838,059.34			4,838,059.34
Buildings and Fixed Equipment	83,125,752.66	156,026.50		83,281,779.16
Furniture, Fixtures, and Equipment	6,238,751.98	115,077.90	761,283.50	5,592,546.38
Motor Vehicles	6,849,319.30	5,500.00		6,854,819.30
Computer Software	1,491,265.69	3,873.11		1,495,138.80
Total Capital Assets Being Depreciated	102,543,148.97	280,477.51	761,283.50	102,062,342.98
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,309,535.46	194,623.17		2,504,158.63
Buildings and Fixed Equipment	30,572,565.28	2,089,994.86		32,662,560.14
Furniture, Fixtures, and Equipment	5,854,839.94	173,563.69	761,283.50	5,267,120.13
Motor Vehicles	5,256,082.28	355,417.26		5,611,499.54
Computer Software	1,062,321.87	162,310.66		1,224,632.53
Total Accumulated Depreciation	45,055,344.83	2,975,909.64	761,283.50	47,269,970.97
Total Capital Assets Being Depreciated, Net	57,487,804.14	(2,695,432.13)		54,792,372.01
Governmental Activities Capital Assets, Net	$ 59,144,716.84	$ (2,695,432.13)	$ 23,986.63	$ 56,425,298.08

Note: Capital asset additions include $3,250 in donated furniture, fixtures, and equipment.

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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 338,731.72
Maintenance of Plant	4,130.87
Unallocated	2,633,047.05
Total Depreciation Expense - Governmental Activities	$ 2,975,909.64

D. Florida Retirement System

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded

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by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to Members from All of the Above Classes	0.00	5.44
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled $3,003,891.87, $2,045,287.10, and $2,029,311.27, respectively, which were equal to the required contributions for each fiscal year.

There were 93 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $243,045.61, which was equal to the required contribution for the 2012-13 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly

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subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Ninety percent of retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 247 retirees received other postemployment benefits. The District provided required contributions of $285,145 toward the annual OPEB cost, net of retiree contributions totaling $447,765, which represents 1.7 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	$ 277,256
Amortization of Unfunded Actuarial Accrued Liability	239,107
Annual Required Contribution	516,363
Interest on Net OPEB Obligation	30,364
Adjustment to Annual Required Contribution	(29,197)
Annual OPEB Cost (Expense)	517,530
Contribution Toward the OPEB Cost	(285,145)
Change in Net OPEB Obligation	232,385
Net OPEB Obligation, Beginning of Year	759,112
Net OPEB Obligation, End of Year	$ 991,497

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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 519,011	43.7%	$ 488,180
2011-12	541,679	50.0%	759,112
2012-13	517,530	55.1%	991,497

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was $6,096,078, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $6,096,078, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $27,087,193, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22.5 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2013, and to estimate the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, projected salary increases of 4.5 percent to 9.75 percent, and an annual healthcare cost trend rate of 5 percent initially for the 2013 calendar year, then changed by various increments and decrements per year to an ultimate rate of 5.42 percent in calendar year 2040 representing the estimated effect of the Federal Excise Tax on High-Cost Employer Health Plans.

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The investment rate of return and projected salary increase rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 26 years.

F. Significant Commitments

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2013:

	Major Funds					
General	Special Revenue - Other Federal Programs	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
$ 44,990.71	$ 13,637.79	$ 17,449.15	$ 671.54	$ 246,966.14	$ 323,715.33

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Levy County District School Board is a member of the North East Florida Educational Consortium (NEFEC) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of NEFEC. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. NEFEC is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for NEFEC is composed of superintendents of all participating districts. NEFEC offices are located in Putnam County, and the Putnam County District School Board is the fiscal agent.

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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H. Long-Term Liabilities

1. Certificates of Participation

The District entered into a financing arrangement which was characterized as a lease-purchase agreement, with the Authority, whereby the District secured financing in the amount of $8,995,000 for various educational facilities and to advance-refund outstanding certificates of participation. The financing was accomplished through the issuance of Certificates of Participation, Series 2005, by the Authority to third-party investors. The certificates are to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Authority, with a rental fee of $10 per year. The initial term of the lease agreement commenced on July 1, 2005, and is automatically renewable for successive one-year periods thereafter; the final lease term will expire on June 30, 2025. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through the term of the lease, the District may be required to surrender the sites included under the ground lease agreement for the benefit of the securers of the certificates.

The District properties included in the ground lease under this arrangement include an auditorium and administrative building at Chiefland High School, a gymnasium at Chiefland Middle School, a media center and cafetorium at Williston Middle School, a media center at Yankeetown School, and a food service building at Cedar Key School.

The lease payments are payable by the District semiannually, on July 1 and January 1 at interest rates ranging from 3.60 to 4.25 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2014	$ 661,507.52	$ 415,000.00	$ 246,507.52
2015	661,463.76	430,000.00	231,463.76
2016	660,338.76	445,000.00	215,338.76
2017	659,318.76	460,000.00	199,318.76
2018	660,918.76	480,000.00	180,918.76
2019-2023	3,296,293.80	2,695,000.00	601,293.80
2024-2025	1,314,262.50	1,235,000.00	79,262.50
Total Minimum Lease Payments	$ 7,914,103.86	$ 6,160,000.00	$ 1,754,103.86

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2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2009A, Refunding	$ 80,000	5.0	2019
Series 2005B, Refunding	790,000	5.0	2018
District Revenue Bonds:			
Series 2005	1,750,000	3.375 - 4.500	2031
Total Bonds Payable	$ 2,620,000		

The various bonds were issued to finance and/or refinance capital outlay projects of the District. The following is a description of the bonded debt issues:

- State School Bonds

  These bonds are issued by the SBE on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the SBE and the SBA.

- District Revenue Bonds

  These bonds are authorized by Chapter 70-781, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Levy County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2012)). The annual distribution is remitted by the Florida Department of Financial Services to the District. These funds accrue annually to the Levy County District School Board after the first $12,000 has been paid to the Levy County Board of Commissioners pursuant to Chapter 65-217, Laws of Florida. All such money not needed for the payment of principal and interest, and handling charges becoming due during the current fiscal year may be used for any lawful purpose. The District is not required to retain excess sinking fund balances or reserves over the amounts needed to make the required fiscal year payments.

  The District has pledged a total of $2,516,034.40 of sales tax remitted in lieu of pari-mutuel (racing commission) revenues in connection with the Series 2005, District Revenue Bonds, described above. During the 2012-13 fiscal year, the District recognized sales tax (racing commission) revenues totaling $434,500 and expended $139,215.63 (32 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax remitted in lieu of pari-mutuel revenues are committed until final maturity of the debt on September 1, 2030. Approximately 32 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	$ 198,500.00	$ 155,000.00	$ 43,500.00
2015	200,750.00	165,000.00	35,750.00
2016	192,500.00	165,000.00	27,500.00
2017	189,250.00	170,000.00	19,250.00
2018	200,750.00	190,000.00	10,750.00
2019	26,250.00	25,000.00	1,250.00
Total State School Bonds	1,008,000.00	870,000.00	138,000.00
District Revenue Bonds:			
2014	141,937.51	70,000.00	71,937.51
2015	139,531.26	70,000.00	69,531.26
2016	141,946.88	75,000.00	66,946.88
2017	139,181.25	75,000.00	64,181.25
2018	141,175.00	80,000.00	61,175.00
2019-2023	694,818.75	440,000.00	254,818.75
2024-2028	700,668.75	550,000.00	150,668.75
2029-2031	416,775.00	390,000.00	26,775.00
Total District Revenue Bonds	2,516,034.40	1,750,000.00	766,034.40
Total	$ 3,524,034.40	$ 2,620,000.00	$ 904,034.40

3. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	$ 6,560,000.00	$	$ 400,000.00	$ 6,160,000.00	$ 415,000.00
Bonds Payable	2,835,000.00		215,000.00	2,620,000.00	225,000.00
Compensated Absences Payable	3,441,395.05	378,823.78	405,303.49	3,414,915.34	405,303.49
Other Postemployment Benefits Payable	759,112.00	517,530.00	285,145.00	991,497.00	
Total Governmental Activities	$ 13,595,507.05	$ 896,353.78	$ 1,305,448.49	$ 13,186,412.34	$ 1,045,303.49

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund.

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance**. Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance**. Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance**. The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

J. Interfund Receivables and Payables

The following is a summary of interfund receivables and payables reported in the fund financial statements:

Funds	Interfund	
	Receivables	Payables
Major:		
General	$ 3,506.13	$ 45,600.30
Special Revenue:		
Other Federal Programs	4,021.66	1,276.85
Federal Economic Stimulus	10,545.16	13,545.16
Capital Projects:		
Local Capital Improvement	44,415.36	2,066.00
Nonmajor Governmental	1,019.24	1,019.24
Total	$ 63,507.55	$ 63,507.55

Interfund balances generally arise due to expenditures being adjusted between funds. All balances are expected to be repaid in less than one year.

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2012-13 fiscal year:

Source	Amount
Florida Education Finance Program	$ 20,108,684.00
Categorical Educational Program - Class Size Reduction	5,787,521.00
Racing Commission Funds	434,500.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	233,477.66
School Recognition	189,740.00
Charter School Capital Outlay	66,012.00
Food Service Supplement	42,410.00
Mobile Home License Tax	12,955.59
Miscellaneous	369,606.55
Total	$ 27,244,906.80

Accounting policies relating to certain State revenue sources are described in note I.G.2.

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.047	$ 8,916,472.64
Basic Discretionary Local Effort	0.748	1,321,479.55
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,650,025.85
Total	7.295	$ 12,887,978.04

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

L. Interfund Transfers

The following is a summary of interfund transfers reported in the fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 1,410,348.17	$ 15,996.11
Debt Service - Other	660,507.52	
Capital Projects - Local Capital Improvement	9,980.11	1,709,559.33
Nonmajor Governmental	6,016.00	361,296.36
Total	$ 2,086,851.80	$ 2,086,851.80

Interfund transfers are used primarily when revenues are recognized in one fund but are used to pay expenses in another. Capital Projects - Local Capital Improvement Fund transfers were used to pay certificates of participation debt, property and casualty insurance premiums, and maintenance and repair expenditures. Racetrack revenues and charter school capital outlay funds were also transferred to the General Fund.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

LEVY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$	$ 50,558.33	$ 50,558.33	$
Federal Through State and Local	97,233.00	250,614.01	250,614.01	
State	27,217,210.00	26,664,553.87	26,469,943.87	(194,610.00)
Local:				
Property Taxes	9,850,499.00	9,944,297.05	9,944,297.05	
Miscellaneous	258,828.00	533,469.24	531,445.93	(2,023.31)
Total Local Revenues	10,109,327.00	10,477,766.29	10,475,742.98	(2,023.31)
Total Revenues	37,423,770.00	37,443,492.50	37,246,859.19	(196,633.31)
Expenditures				
Current - Education:				
Instruction	21,735,478.44	22,332,500.77	22,194,416.11	138,084.66
Pupil Personnel Services	2,227,091.65	1,877,294.97	1,764,987.47	112,307.50
Instructional Media Services	592,645.00	562,815.36	497,913.85	64,901.51
Instruction and Curriculum Development Services	581,548.00	610,548.00	608,792.87	1,755.13
Instructional Staff Training Services	593,908.78	261,797.24	209,030.16	52,767.08
Instruction Related Technology	121,492.00	122,963.94	120,146.47	2,817.47
School Board	273,741.00	273,741.00	246,011.86	27,729.14
General Administration	1,006,162.35	1,071,602.35	1,070,668.51	933.84
School Administration	2,869,332.75	2,935,889.28	2,923,549.43	12,339.85
Facilities Acquisition and Construction	24,282.00	77,033.00	30,234.48	46,798.52
Fiscal Services	383,721.00	410,721.00	410,492.87	228.13
Central Services	340,971.00	353,971.00	349,600.59	4,370.41
Pupil Transportation Services	3,361,959.88	3,522,620.75	3,517,478.69	5,142.06
Operation of Plant	3,539,693.01	3,336,093.01	3,335,078.74	1,014.27
Maintenance of Plant	1,015,029.14	978,982.49	948,426.01	30,556.48
Administrative Technology Services	457,977.00	587,677.00	577,602.80	10,074.20
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		7,971.99	7,971.99	
Total Expenditures	39,125,033.00	39,324,223.15	38,812,402.90	511,820.25
Deficiency of Revenues Over Expenditures	(1,701,263.00)	(1,880,730.65)	(1,565,543.71)	315,186.94
Other Financing Sources (Uses)				
Transfers In	1,736,378.00	1,410,348.17	1,410,348.17	
Insurance Loss Recoveries		309,518.62	309,518.62	
Transfers Out	(50,000.00)	(15,996.11)	(15,996.11)	
Total Other Financing Sources (Uses)	1,686,378.00	1,703,870.68	1,703,870.68	
Net Change in Fund Balances	(14,885.00)	(176,859.97)	138,326.97	315,186.94
Fund Balances, Beginning	1,605,552.98	1,605,552.98	1,605,552.98	
Fund Balances, Ending	$ 1,590,667.98	$ 1,428,693.01	$ 1,743,879.95	$ 315,186.94

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$	$ 36,291.02	$ 36,291.02	$	$	$	$	$
5,195,418.78	5,930,287.76	4,604,590.66	(1,325,697.10)	620,596.55	1,484,546.19	1,090,313.99	(394,232.20)
5,195,418.78	5,966,578.78	4,640,881.68	(1,325,697.10)	620,596.55	1,484,546.19	1,090,313.99	(394,232.20)
3,217,165.40	3,772,412.49	3,014,726.47	757,686.02	388,885.02	789,820.06	642,835.35	146,984.71
165,344.10	199,833.92	128,790.85	71,043.07	77,989.90	121,528.73	59,173.21	62,355.52
	12,299.83	9,100.54	3,199.29		4,000.00	2,177.23	1,822.77
407,297.79	535,773.49	507,422.41	28,351.08	38,129.65	133,251.50	109,650.11	23,601.39
962,789.64	1,118,371.23	714,240.05	404,131.18	115,591.98	284,839.91	135,014.06	149,825.85
35,084.70	60,295.46	44,929.77	15,365.69				
151,658.53	159,196.08	126,114.85	33,081.23		3,000.00	1,342.52	1,657.48
12,288.86	455.00	296.66	158.34		10,435.84	6,394.64	4,041.20
3,738.25	28,738.25	26,922.19	1,816.06		3,400.00	1,017.65	2,382.35
6,254.51	38,085.51	27,220.37	10,865.14		1,476.98		1,476.98
					13,434.85	13,350.90	83.95
233,797.00							
					71,959.87	71,959.87	
	41,117.52	41,117.52			47,398.45	47,398.45	
5,195,418.78	5,966,578.78	4,640,881.68	1,325,697.10	620,596.55	1,484,546.19	1,090,313.99	394,232.20
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

LEVY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2008	$ 0	$ 2,375,637	$ 2,375,637	0.0%	$ 22,712,663	10.5%
October 1, 2010	0	6,660,474	6,660,474	0.0%	21,046,218	31.6%
October 1, 2012	0	6,096,078	6,096,078	0.0%	27,087,193	22.5%

Note: (1) The District's OPEB actuarial valuation used the projected unit cost credit normal cost method to estimate the June 30, 2008, actuarial accrued liability and used the entry age normal cost method to estimate the October 1, 2010, and October 1, 2012, actuarial accrued liabilities.

LEVY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (SBE) rules in establishing budget balances for governmental funds, as described below:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2012, unfunded actuarial accrued liability of $6,096,078 was significantly lower than the October 1, 2010, liability of $6,660,474 as a result of plan design changes reducing the cost of coverage coupled with increases in premiums charged to retirees as discussed below:

- The average cost of coverage provided to employees, retirees, and their dependents, increased from $409 per subscriber per month (as expected for the 2010 plan year) to $448 per subscriber per month for the 2012 plan year. This increase is lower than the $497 per employee per month projected for 2012 at the time the prior valuation was performed.
- The assumed rate of coverage lapsing for retirees attaining eligibility for Medicare benefits increased from 80 percent in the 2010 valuation to 90 percent for the 2012 valuation.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LEVY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	$ 454,242.60	$
National School Lunch Program	10.555 (2)	300, 350	1,734,045.77	
Summer Food Service Program for Children	10.559	323	18,415.80	
Total Child Nutrition Cluster			2,206,704.17	
Specialty Crop Block Grant Program - Farm Bill	10.170	019796	2,872.09	
Total United States Department of Agriculture			2,209,576.26	
United States Department of Education:				
Direct:				
Teacher Incentive Fund	84.374 (4)	N/A	36,291.02	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (3)	262, 263	1,359,594.02	5,739.45
Special Education - Preschool Grants	84.173	267	47,160.15	
University of South Florida:				
Special Education - Grants to States	84.027 (3)	None	103,595.83	
Marion County District School Board:				
Special Education - Grants to States	84.027 (3)	None	3,444.56	
Total Special Education Cluster			1,513,794.56	5,739.45
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	154,958.18	
ARRA - School Improvement Grants, Recovery Act	84.388	126	659,258.27	
Total School Improvement Grants Cluster			814,216.45	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 226, 228	2,382,105.18	
Career and Technical Education - Basic Grants to States	84.048	161	123,990.93	
Twenty-First Century Community Learning Centers	84.287	244	1,803.35	
Rural Education	84.358	110	110,419.00	
English Language Acquisition Grants	84.365	102	19,992.55	
Improving Teacher Quality State Grants	84.367	224	293,068.72	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	RD211, RG311, RL111, RS611	431,055.72	
Florida Gulf Coast University:				
Special Education - State Personnel Development	84.323	None	962.50	
Putnam County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	None	1,809.61	
Teacher Incentive Fund	84.374 (4)	None	747.27	
Alachua County District School Board:				
Migrant Education State Grant Program	84.011	None	4,068.16	
Total Indirect			5,698,034.00	5,739.45
Total United States Department of Education			5,734,325.02	5,739.45
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	50,558.33	
Total Expenditures of Federal Awards			$ 7,994,459.61	$ 5,739.45

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes $212,630.35 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Special Education. Total CFDA No. 84.027 expenditures: $1,466,634.41.

(4) Teacher Incentive Fund. Total CFDA No. 84.374 expenditures: $37,038.29.

(5) ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: $432,865.33.

AUDITOR GENERAL
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Levy County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 5, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Levy County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 5, 2014

AUDITOR GENERAL
STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Levy County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 5, 2014

LEVY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.377 and 84.388	School Improvement Grants Cluster
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

LEVY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

ADDITIONAL MATTERS

Finding No. 1: Land Contract

Section 1013.14(1)(b), Florida Statutes, requires the Board to obtain at least two appraisals for each land purchase that costs over $500,000 and, if the purchase price exceeds the average appraised value, the Board is required to approve the purchase by an extraordinary vote (majority plus one). Section 1013.365(4), Florida Statutes, requires that the Board conduct appropriate due diligence by making inquiry into the previous ownership and use of a proposed purchase site, consistent with good commercial or customary practice, to determine the existence of any potential air, water, or soil contamination that may exist on or adjacent to the site.

The Board Chair and Superintendent entered into a $770,000 contract in December 2012 to purchase land for a middle/high school site, contingent upon Board approval, receiving State special facilities funding, and obtaining certain easements from adjacent property owners, with a contract expiration date of December 2015. In May and June 2012, the District had previously obtained two appraisals, resulting in an average appraised value of $510,125, or $259,875 less than the contract price. In January 2013, the District provided the appraisals to the Board and the Board approved the contract; however, Board approval was based on a majority vote, instead of an extraordinary vote pursuant to Section 1013.14(1)(b), Florida Statutes. Also, although District personnel indicated that they made site visits to the property, District records did not evidence that the Board conducted the required due diligence to determine the existence of any potential air, water, or soil contamination prior to approving the contract to purchase the land. In addition, due to oversight, the contract did not include legal remedies or a cancellation clause to provide the District an opportunity to void the contract if contaminants are found. District personnel indicated that, prior to the projected contract expiration date, they plan to conduct an environmental study to determine the existence of any contaminants and bring the matter back to the Board to obtain an extraordinary vote.

Recommendation: The District should enhance its procedures to ensure that, before land contracts are executed, Board approval by extraordinary vote is obtained when the purchase price exceeds the average appraisal value, District records evidence due diligence in determining the existence of any contaminants, and contract provisions include legal remedies or cancellation clauses to provide the District an opportunity to void the contract if contaminants are found.

Finding No. 2: Facilities Management

The Assistant Superintendent of Administration is responsible for coordinating outsourced construction and renovation projects and the Director of Maintenance oversees maintenance department personnel who are responsible for ensuring facilities are safe and suitable for their intended use. Maintenance department personnel also perform heating, ventilating, air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the department had 18 full-time 12-month positions, and maintenance costs totaled $948,426. Also, during this fiscal year, the District had expenditures totaling $132,040 for capital projects

construction and renovation. As shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 17, 2013, the District planned to spend $3.2 million on maintenance, and $2.2 million on construction projects, over the next five fiscal years. In addition, the District has applied to the Florida Department of Education (FDOE) for Special Facilities Funding for a new school with a planned cost of $39 million to be spent in the next five fiscal years if approved. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was $89.8 million and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 30 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for maintenance department employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods or Maintenance Techniques**. The District primarily awards construction and renovation contracts to construction management contractors using a traditional guaranteed maximum price construction method. In addition, maintenance-related jobs, such as plumbing, electrical, and HVAC repairs, are routinely performed by maintenance department personnel based on safety and suitability priorities, although some jobs are outsourced to contractors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction, renovation, or remodeling project or significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. The District had not established goals that identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the District could set goals such as completing renovation or remodeling projects, or maintenance-related jobs, that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

  Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goals could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its maintenance department employees are operating as cost-effectively and efficiently as possible.

Recommendation: The District should consider developing written policies and procedures requiring the periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. Also, the District should consider developing goals and objectives for maintenance department employees to identify cost-effectiveness or efficiency outcomes for department personnel.

Finding No. 3: Virtual Instruction

Section 1002.45, Florida Statutes, establishes virtual instruction program (VIP) requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District contracted with the North East Florida Educational Consortium (NEFEC) to administer certain aspects of the VIP. During the 2012-13 fiscal year, 5 students were enrolled full-time, and 31 students were enrolled and completed one or two courses to supplement their school academic activity. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with the VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Additionally, the lack of written VIP policies and procedures may have contributed to the following instances of the District's noncompliance and control deficiencies:

- Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in VIPs, and Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely written notification of the open enrollment periods for their VIPs. The District Web site links virtual school information directly to NEFEC's Web site, which provides information about the VIP. Additionally, the District distributes informational brochures to students at the beginning of each school year that includes information on the availability of the VIP. While these methods indicate efforts by the District to communicate with parents and students about the VIPs for the 2012-13 school year, District records did not evidence that written notifications were provided directly to parents of students. District personnel indicated that distribution of informational brochures is the customary practice of communicating with parents and meets compliance with the law. However, without evidence that written notification was provided directly to parents, some parents may not have been informed of the available VIP options and the associated enrollment periods, potentially resulting in limited student access to virtual instruction types.
- Section 1012.55(1), Florida Statutes, requires that each person serving in an instructional capacity in any public school in any school district within the State, including personnel providing direct instruction to students through a virtual environment or through a blended virtual and physical environment, hold the certificate required by law. The District's contract with NEFEC provided that NEFEC was responsible for assigning teachers who are certified in their respective areas and for supervising the contracted teachers. However, the District did not request or obtain confirmation that the teachers were certified or were subject to required background screenings.
- Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance. NEFEC has a record each time that a student logs in to work on a course; the District relies on NEFEC to maintain attendance and to inform the District if a student is not participating as necessary to remain in the course. However, the District did not maintain attendance information for the five students who were enrolled full-time and who took courses from locations other than at one of the District's schools. As such, District records did not evidence that these students satisfied the statutorily required compulsory attendance requirements.
- Section 1002.45(3)(d), Florida Statutes, requires that VIPs provide all necessary equipment, such as computers, monitors, printers, and Internet access for online instruction to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home. Parents interested in the program who contact the District are directed to the NEFEC Web site, which offers a hardship application to determine if a student is eligible to receive such assistance; however, the informational brochure sent home with students did not

indicate that IT equipment and Internet access will be provided to eligible students. Without appropriately notifying the parents of students of the availability of computer equipment and Internet access, students who do not make inquiries about participating in the VIP may not be provided the computing resources required to participate in the VIP. During the 2012-13 school year, the District did not provide any computer equipment or Internet access to any student.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should ensure written notification to all parents about student opportunities to participate in the VIP, documented verification that teachers who provide VIP services are appropriately certified and subject to required background screenings, documented verification that students enrolled in the VIP have complied with compulsory attendance requirements prescribed by law, and qualified VIP students are provided computer resources.

Finding No. 4: Information Technology - Timely Deactivation of Access Privileges

Effective management of information technology (IT) access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned or terminated. Prompt action is necessary to ensure that IT access privileges are not misused by former employees or others to compromise data or IT resources. Periodic reviews of assigned access privileges and application profiles are necessary to ensure that employees can only access IT resources that are necessary to perform their job responsibilities and to detect any former employees' access privileges that were inadvertently not removed.

The District provided certain employees the ability to log on to District computers and access e-mail and other information using network accounts and access the District's finance and human resource (HR) applications using software on District computers. Employees could also access the finance and HR applications through the Web external to the District's network. The District's MIS Coordinator reviews Board agendas for employment termination dates and deactivates network account access privileges of former employees. However, the District did not have a procedure for periodically reviewing, at least annually, employees' access privileges to the finance and HR applications. Our test in December 2013 of 88 users with access to the finance and HR applications disclosed 6 former employees who terminated employment, ranging from 6 months to 5 years prior to December 2013, whose access privileges to the finance and HR applications had not been deactivated.

In response to our inquiry in January 2014, District personnel deactivated the access privileges of the 6 former employees. When access privileges of former employees are not timely deactivated, the risk is increased that access privileges may be misused by the former employees or others. In addition, without a periodic review of access privileges, inappropriate or unnecessary access privileges granted may not be timely detected and remediated.

Recommendation: The District should ensure that access privileges of former employees are timely deactivated. In addition, the District should implement procedures to periodically review user access privileges.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2013-141.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

LEVY COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

Listed below is the District's summary of the status of a prior audit finding on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2013-141 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles	Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE

Robert O. Hastings
Superintendent

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Bronson, FL 32621-0129

School Board of Levy County
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(352) 486-5231
Fax (352) 486-5237

February 20, 2014

David W. Martin
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin,

Following is our response to the preliminary and tentative finding results from the audit of the Levy County District School Board for the fiscal year ending June 30, 2013.

Finding No. 1: Land Contract

The Board appointed a search committee which considered several possible parcels before the Board entered into a contract for sale on December 18, 2012 by a majority vote. The chosen parcel was most suitable to build the new Williston Middle High School even though the proposed price per acre was more than the appraised value. A phase I environmental study was conducted on the property in December 2013, and was followed up with a phase II study. Upon completion of the environmental study, on February 4, 2014 the board by a unanimous vote agreed upon the purchase price and waived other clauses it felt were no longer necessary and moved to purchase the property.

The Board will enhance its procedures to ensure that, before land contracts are executed, Board approval by extraordinary vote is obtained when the purchase price exceeds the average appraisal value. The District will also include in any land contracts due diligence in determining the existence of any contaminants, and contract provisions which include legal remedies or cancellation clauses to provide the District an opportunity to void the contract if contaminants are found.

Finding No. 2: Facilities Management

The District will consider developing written policies and procedures requiring the periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. Also, the District will also consider developing goals and objectives for maintenance department employees to identify cost-effectiveness or efficiency outcomes for these personnel.



EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3: Virtual Instruction

The District will develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures will ensure written notification to all parents about student opportunities to participate in the VIP, documented verification that teachers who provide VIP services are appropriately certified and subject to required background screenings, documented verification that students enrolled in the VIP have complied with compulsory attendance requirements prescribed by law, and qualified VIP students are provided computer resources.

Finding No. 4: Timely Deactivation of Access Privileges

The District will ensure that access privileges of former employees are timely deactivated. In addition, the District will implement procedures to periodically review user access privileges.

Let me know if you have any additional comments or questions.

Sincerely,

Robert O. Hastings, Superintendent