REPORT NO. 2015-147
MARCH 2015

BAY COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	District No.
Jerry Register, Chair	1
Ginger Littleton	2
Joe Wayne Walker	3
Ryan Neves	4
Steve Moss, Vice Chair	5

William V. Husfelt, III, 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 Pamela L. Thompson, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. For the information technology portion of this audit, the audit team leader was Shawn M. McCormick, CPA, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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: District records did not evidence supervisory review and approval of journal entries.

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Controls over food service collections could be enhanced.

Finding No. 4: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 5: Controls over construction administration could be enhanced.

Finding No. 6: The Board had not adopted a policy prescribing the minimum insurance coverage requirements for design professionals.

Finding No. 7: The District needed to enhance its procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 8: 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. 9: Procedural enhancements were needed to ensure that required number of VIP options is offered.

Finding No. 10: VIP provider contracts did not include certain statutorily required or necessary provisions.

Finding No. 11: District records did not evidence that all VIP providers' employees and contracted personnel were subject to required background screenings.

Finding No. 12: Some unnecessary information technology (IT) access privileges existed, and the District had not developed procedures for the periodic review of network access privileges.

Finding No. 13: The District did not timely deactivate the network access privileges for some former employees.

Finding No. 14: The District had not developed a comprehensive, written IT risk assessment.

Finding No. 15: Certain District IT security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Federal Pell, Special Education 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. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 2014-001: Certain expenditures for the Child Nutrition Cluster were not always properly approved, documented, or supported.

Audit Objectives and Scope

Our audit objectives were to determine whether the Bay 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 previous audit reports.**

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, 2014. 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2014, 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 Tom P. Haney Technical Center school internal funds, which represent 5 percent of the assets and 5 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, 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 Tom P. Haney Technical Center 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Bay County District School Board as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note II to the financial statements, the District has determined prior period adjustments were required to report certain component unit information in the financial statements for the 2013-14 fiscal year that was excluded from the financial statements for the 2012-13 fiscal year. As also discussed in note II, effective for the 2013-14 fiscal year, implementation of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulted in an accounting change in the component units' column. These matters affect the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to these matters.

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 District'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 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Bay County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-14 fiscal year are as follows:

- The District's net position of governmental activities decreased by $5,182,777, or 2.18 percent.
- During the current fiscal year, General Fund expenditures exceeded revenues and other financial sources by $1,976,139. This may be compared to last fiscal year's results in which General Fund revenues and other financing sources exceeded expenditures by $3,255,008.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $24,672,749, or 12.73 percent of the General Fund expenditures compared to the previous fiscal year's unassigned fund balance of $25,353,199, or 14.35 percent of the General Fund expenditures.

NON-FINANCIAL EVENTS

Key non-financial highlights for the 2013-14 fiscal year are as follows:

- The District negotiated the elimination of set salary schedules with both unions, enabling the District to move to performance pay in future years.
- The District continues with major capital expenditures including continued upgrading of classroom technology, modernization of our bus fleet, and several upgrades in student safety including installation of more security cameras.
- Breakfast Point Academy added an 8th grade reaching its planned K-8 capacity.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to financial statements.

In addition to the basic financial statements, this report presents certain required supplementary information, which includes the MD&A, the budgetary comparison schedule, the schedule of progress for other postemployment benefits, and the notes to required supplementary information.

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 and business-type 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, 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 the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, 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.
- Business-type activities – These activities account for the financial resources of the Beacon Learning Center which provides services predominately for other districts.
- Component units – The District presents 10 charter schools and the Bay Education Foundation, Inc., (Foundation). The District's Foundation and charter schools are reported as discretely presented component units. 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 primary government.

  The Bay County Educational Facilities Finance Corporation (Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

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 the 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, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

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 – Federal Economic Stimulus Fund, Debt Service - Other Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other 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.

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Enterprise Funds are appropriate for activities in which a fee is charged to external users of the District's goods and services. The District uses an enterprise fund to account for financial activities of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses an internal service fund to account for its self-insurance programs. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

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.

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

As noted earlier, 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, 2014, compared to net position as of June 30, 2013:

Net Position, End of Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Current and Other Assets	$ 85,897,700	$ 93,931,237	$ 2,857,472	$ 2,932,227	$ 88,755,172	$ 96,863,464
Capital Assets	306,839,280	313,998,159	19,145	20,197	306,858,425	314,018,356
Total Assets	392,736,980	407,929,396	2,876,617	2,952,424	395,613,597	410,881,820
Long-Term Liabilities	149,518,638	162,195,311	102,459	101,394	149,621,097	162,296,705
Other Liabilities	10,236,493	7,569,459	440,334	681,560	10,676,827	8,251,019
Total Liabilities	159,755,131	169,764,770	542,793	782,954	160,297,924	170,547,724
Net Position:						
Net Investment in Capital Assets	200,758,867	176,554,489	19,145	20,197	200,778,012	176,574,686
Restricted	13,564,180	40,177,177			13,564,180	40,177,177
Unrestricted	18,658,802	21,432,960	2,314,679	2,149,273	20,973,481	23,582,233
Total Net Position	$ 232,981,849	$ 238,164,626	$ 2,333,824	$ 2,169,470	$ 235,315,673	$ 240,334,096

The largest portion of the District's net position (85.32 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position (5.77 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (8.91 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Program Revenues:						
Charges for Services	$ 8,228,829	$ 6,751,168	$ 1,411,184	$ 1,360,013	$ 9,640,013	$ 8,111,181
Operating Grants and Contributions	7,770,253	7,787,506			7,770,253	7,787,506
Capital Grants and Contributions	2,362,203				2,362,203	
General Revenues:						
Property Taxes, Levied for Operational Purposes	83,152,679	85,622,741			83,152,679	85,622,741
Property Taxes, Levied for Capital Projects	14,437,669	13,323,534			14,437,669	13,323,534
Local Sales Taxes	17,850,804	16,513,356			17,850,804	16,513,356
Grants and Contributions Not Restricted to Specific Programs	114,638,903	103,542,792			114,638,903	103,542,792
Unrestricted Investment Earnings	235,097	296,032	5,131	6,877	240,228	302,909
Miscellaneous	1,801,332	4,053,706			1,801,332	4,053,706
Total Revenues	250,477,769	237,890,835	1,416,315	1,366,890	251,894,084	239,257,725
Functions/Program Expenses:						
Instruction	137,382,366	125,938,105			137,382,366	125,938,105
Student Personnel Services	8,892,171	7,975,764			8,892,171	7,975,764
Instructional Media Services	2,409,111	2,240,000			2,409,111	2,240,000
Instruction and Curriculum Development Services	4,978,947	5,143,268			4,978,947	5,143,268
Instructional Staff Training Services	2,472,355	1,848,008			2,472,355	1,848,008
Instruction Related Technology	6,592	4,814			6,592	4,814
School Board	707,188	822,396			707,188	822,396
General Administration	907,821	806,145			907,821	806,145
School Administration	13,047,074	12,648,868			13,047,074	12,648,868
Facilities Acquisition and Construction	5,296,836	3,297,019			5,296,836	3,297,019
Fiscal Services	1,683,345	1,636,176			1,683,345	1,636,176
Food Services	10,254,102	10,008,394			10,254,102	10,008,394
Central Services	5,464,008	9,248,790			5,464,008	9,248,790
Student Transportation Services	8,504,265	6,829,550			8,504,265	6,829,550
Operation of Plant	14,171,343	11,299,531			14,171,343	11,299,531
Maintenance of Plant	4,462,848	3,801,611			4,462,848	3,801,611
Administrative Technology Services	3,076,202	2,535,596			3,076,202	2,535,596
Community Services	2,778,764	2,807,666			2,778,764	2,807,666
Unallocated Interest on Long-Term Debt	4,638,326	4,637,422			4,638,326	4,637,422
Unallocated Depreciation Expense	24,526,882	25,159,371			24,526,882	25,159,371
Beacon Learning Center			1,251,961	1,167,903	1,251,961	1,167,903
Total Functions/Program Expenses	255,660,546	238,688,494	1,251,961	1,167,903	256,912,507	239,856,397
Change in Net Position	(5,182,777)	(797,659)	164,354	198,987	(5,018,423)	(598,672)
Net Position - Beginning	238,164,626	238,962,285	2,169,470	1,970,483	240,334,096	240,932,768
Net Position - Ending	$ 232,981,849	$ 238,164,626	$ 2,333,824	$ 2,169,470	$ 235,315,673	$ 240,334,096

State revenues increased by $15,960,720, or 18.92 percent mainly due to an increase in the Florida Education Finance Program (FEFP) funding.

Instruction expenses represent 53.47 percent of total governmental expenses in the 2013-14 fiscal year. Instruction expenses increased by $11,444,261, or 9.09 percent, from the previous fiscal year due mainly to the increase in disbursements to the District's charter schools.

The increase in net position for the business-type activities resulted primarily from charges for services exceeding expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by $9,984,531 during the fiscal year to $58,980,588 at June 30, 2014. Approximately 41.85 percent of this amount is unassigned fund balance ($24,672,749), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form ($1,052,410), 2) restricted for particular purposes ($32,485,490), or 3) assigned for particular purposes ($769,939).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $24,672,749, while the total fund balance is $26,460,487. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately 13.44 percent of the total General Fund revenues, while total fund balance represents approximately 13.97 percent of total General Fund revenues.

The Special Revenue – Federal Economic Stimulus Fund has a zero fund balance. The District used these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance.

The Debt Service – Other Fund accounts for the payment of principal and interest of the District's certificates of participation (COPs) and notes payable and has a total fund balance of $6,192.

The Capital Projects – Local Capital Improvement (LCI) Fund has a total fund balance of $1,951,311, of which $1,412,036 has been encumbered for specific LCI projects.

The Capital Projects - Other Fund has a total fund balance of $26,448,400, of which $24,869,224 has been encumbered for specific projects.

Proprietary Funds

The District's proprietary funds provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the internal service fund decreased by $727,514 during the 2013-14 fiscal year to $2,236,264. This decrease occurred primarily due to an increase in claims expense along with a decrease in transfers from the General Fund.

Unrestricted net position of the Beacon Learning Center Enterprise Fund totals $2,333,824 at June 30, 2014, an increase of $164,354. This increase occurred primarily because charges for services exceeded operating expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

Actual revenues and other financing sources were $2,953,349, more than the final budgeted amounts, while actual expenditures were $16,578,124 less than the final budgeted amounts. Positive budget variances occurred in several functions, including instruction, fiscal services, operation of plant, and facilities acquisition. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by $19,531,473 due to significant cost savings and the establishment of several reserve accounts designed to help the District offset expected revenue shortfalls.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts were $306,839,280 and $19,145, respectively (net of accumulated depreciation). The investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

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

Long-Term Debt

At June 30, 2014, the District has total long-term debt outstanding of $125,131,900, consisting of $2,975,000 of bonds payable, $36,374,964 of sales tax revenue anticipation notes payable, $1,538,936 of obligations under capital leases, and $84,243,000 of certificates of participation (COPs) payable.

During the 2013-14 fiscal year, the District issued Refunding COPs, Series 2013, in the amount of $7,152,900 to refund outstanding Refunding COPs, Series 2004.

Additional information on the District's long-term debt can be found in notes I.F.5 and III.H through III.I to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Finance Officer, Bay County District School Board, 1311 Balboa Avenue, Panama City, FL 32401.

BASIC FINANCIAL STATEMENTS

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	$ 81,891,492.99	$ 2,906,691.77	$ 84,798,184.76	$ 13,597,702.00
Investments				3,555,103.00
Accounts Receivable	3,806.02	1,030.00	4,836.02	914,514.00
Internal Balances	50,312.31	(50,312.31)		
Due from Other Agencies	1,297,904.28	62.50	1,297,966.78	492,738.00
Prepaid Items	1,601,773.95		1,601,773.95	130,963.00
Inventories	1,052,410.43		1,052,410.43	4,970.00
Other Assets				11,426.00
Capital Assets:				
Nondepreciable Capital Assets	25,527,260.39		25,527,260.39	14,447,559.00
Depreciable Capital Assets, Net	281,312,019.29	19,144.95	281,331,164.24	17,603,806.00
TOTAL ASSETS	392,736,979.66	2,876,616.91	395,613,596.57	50,758,781.00
DEFERRED OUTFLOWS OF RESOURCES				701,026.00
LIABILITIES				
Salaries and Benefits Payable				122,763.00
Payroll Deductions and Withholdings	902,448.52	1,444.89	903,893.41	
Accounts Payable	2,949,417.93	9,192.36	2,958,610.29	1,330,863.00
Construction Contracts Payable - Retainage	269,412.99		269,412.99	
Due to Other Agencies	7,555.03		7,555.03	435,626.00
Matured Certificates of Participation Payable	4,199,900.00		4,199,900.00	
Matured Interest Payable	1,835,433.96		1,835,433.96	490,438.00
Advanced Revenue	72,324.69	429,696.27	502,020.96	160,174.00
Long-Term Liabilities:				
Portion Due Within One Year	18,515,914.97	20,278.59	18,536,193.56	434,387.00
Portion Due After One Year	131,002,722.62	82,180.90	131,084,903.52	36,090,005.00
TOTAL LIABILITIES	159,755,130.71	542,793.01	160,297,923.72	39,064,256.00
NET POSITION				
Net Investment in Capital Assets	200,758,866.95	19,144.95	200,778,011.90	2,196,544.00
Restricted for:				
State Required Carryover Programs	95,566.62		95,566.62	
Debt Service	84,175.34		84,175.34	
Capital Projects	9,858,279.91		9,858,279.91	
Food Service	3,526,158.51		3,526,158.51	
Other Purposes				2,143,880.00
Unrestricted	18,658,801.62	2,314,678.95	20,973,480.57	8,055,127.00
TOTAL NET POSITION	$ 232,981,848.95	$ 2,333,823.90	$ 235,315,672.85	$ 12,395,551.00

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

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	$ 137,382,365.90	$ 3,131,713.22	$	$
Student Personnel Services	8,892,170.86			
Instructional Media Services	2,409,110.77			
Instruction and Curriculum Development Services	4,978,947.13			
Instructional Staff Training Services	2,472,355.47			
Instruction Related Technology	6,591.58			
School Board	707,187.87			
General Administration	907,821.07			
School Administration	13,047,074.11			
Facilities Acquisition and Construction	5,296,835.80			1,546,839.87
Fiscal Services	1,683,344.91			
Food Services	10,254,102.08	2,398,193.51	7,770,252.73	
Central Services	5,464,007.95			
Student Transportation Services	8,504,264.75	629,782.54		
Operation of Plant	14,171,343.16			
Maintenance of Plant	4,462,848.13			
Administrative Technology Services	3,076,202.26			
Community Services	2,778,763.52	2,030,030.19		
Unallocated Interest on Long-Term Debt	4,638,326.11	39,109.36		815,363.55
Unallocated Depreciation*	24,526,882.02			
Total Governmental Activities	255,660,545.45	8,228,828.82	7,770,252.73	2,362,203.42
Business-Type Activities:				
Beacon Learning Center	1,251,960.89	1,411,183.82		
Total Primary Government	$ 256,912,506.34	$ 9,640,012.64	$ 7,770,252.73	$ 2,362,203.42
Component Units				
Charter Schools/Foundation	$ 22,484,666.00	$ 2,131,654.00	$ 275,230.00	$ 181,514.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning
Adjustment to Beginning Net Position

Net Position - Beginning, as Restated

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
Governmental Activities	Business-Type Activities	Total	Units
$ (134,250,652.68)	$	$ (134,250,652.68)	$
(8,892,170.86)		(8,892,170.86)	
(2,409,110.77)		(2,409,110.77)	
(4,978,947.13)		(4,978,947.13)	
(2,472,355.47)		(2,472,355.47)	
(6,591.58)		(6,591.58)	
(707,187.87)		(707,187.87)	
(907,821.07)		(907,821.07)	
(13,047,074.11)		(13,047,074.11)	
(3,749,995.93)		(3,749,995.93)	
(1,683,344.91)		(1,683,344.91)	
(85,655.84)		(85,655.84)	
(5,464,007.95)		(5,464,007.95)	
(7,874,482.21)		(7,874,482.21)	
(14,171,343.16)		(14,171,343.16)	
(4,462,848.13)		(4,462,848.13)	
(3,076,202.26)		(3,076,202.26)	
(748,733.33)		(748,733.33)	
(3,783,853.20)		(3,783,853.20)	
(24,526,882.02)		(24,526,882.02)	
(237,299,260.48)		(237,299,260.48)	
	159,222.93	159,222.93	
(237,299,260.48)	159,222.93	(237,140,037.55)	
			(19,896,268.00)
83,152,678.85		83,152,678.85	
14,437,669.29		14,437,669.29	
17,850,803.92		17,850,803.92	
114,638,902.76		114,638,902.76	21,771,628.00
235,097.10	5,130.58	240,227.68	48,205.00
1,801,331.54		1,801,331.54	166,179.00
232,116,483.46	5,130.58	232,121,614.04	21,986,012.00
(5,182,777.02)	164,353.51	(5,018,423.51)	2,089,744.00
238,164,625.97	2,169,470.39	240,334,096.36	9,715,878.00
			589,929.00
238,164,625.97	2,169,470.39	240,334,096.36	10,305,807.00
$ 232,981,848.95	$ 2,333,823.90	$ 235,315,672.85	$ 12,395,551.00

BAY COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS			
Cash and Cash Equivalents	$ 26,876,709.83	$ 18,425.13	$ 6,041,525.58
Accounts Receivable	3,806.02		
Due from Other Funds	1,349,887.54	0.02	
Due from Other Agencies	439,429.21	220,207.88	
Inventories	922,232.14		
TOTAL ASSETS	$ 29,592,064.74	$ 238,633.03	$ 6,041,525.58
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	$ 803,340.20	$ 16,257.38	$
Accounts Payable	2,268,370.28	125,731.32	
Construction Contracts Payable - Retainage			
Due to Other Funds	51,060.13	96,644.33	
Due to Other Agencies			
Matured Certificates of Participation Payable			4,199,900.00
Matured Interest Payable			1,835,433.96
Advanced Revenue	8,807.40		
Total Liabilities	3,131,578.01	238,633.03	6,035,333.96
Fund Balances:			
Nonspendable:			
Inventories	922,232.14		
Restricted for:			
State Required Carryover Programs	95,566.62		
Debt Service			6,191.62
Capital Projects			
Food Service			
Total Restricted Fund Balance	95,566.62		6,191.62
Assigned for Purchase Order Obligations	769,939.44		
Unassigned Fund Balance	24,672,748.53		
Total Fund Balances	26,460,486.73		6,191.62
TOTAL LIABILITIES AND FUND BALANCES	$ 29,592,064.74	$ 238,633.03	$ 6,041,525.58

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 1,462,039.76	$ 27,652,123.51	$ 4,879,636.39	$ 66,930,460.20
			3,806.02
591,559.08		94.57	1,941,541.21
9,138.86	3,206.82	503,419.08	1,175,401.85
		130,178.29	1,052,410.43
$ 2,062,737.70	$ 27,655,330.33	$ 5,513,328.33	$ 71,103,619.71
$	$	$ 82,002.32	$ 901,599.90
22,205.51	368,227.25	161,041.96	2,945,576.32
1,000.00	268,412.99		269,412.99
88,220.99	570,290.08	1,085,013.37	1,891,228.90
		7,555.03	7,555.03
			4,199,900.00
			1,835,433.96
		63,517.29	72,324.69
111,426.50	1,206,930.32	1,399,129.97	12,123,031.79
		130,178.29	1,052,410.43
			95,566.62
		77,983.72	84,175.34
1,951,311.20	26,448,400.01	510,056.13	28,909,767.34
		3,395,980.22	3,395,980.22
1,951,311.20	26,448,400.01	3,984,020.07	32,485,489.52
			769,939.44
			24,672,748.53
1,951,311.20	26,448,400.01	4,114,198.36	58,980,587.92
$ 2,062,737.70	$ 27,655,330.33	$ 5,513,328.33	$ 71,103,619.71

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BAY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balances - Governmental Funds		$ 58,980,587.92
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.		306,839,279.68
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		2,236,264.13
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:		
Obligations Under Capital Leases	$ 1,538,936.53	
Bonds Payable	2,975,000.00	
Sales Tax Revenue Anticipation Notes Payable	36,374,963.63	
Certificates of Participation Payable	84,243,000.00	
Compensated Absences Payable (net of $32,832.81 in the Internal Service Fund)	9,918,060.62	
Other Postemployment Benefits Payable	24,322.00	(135,074,282.78)
Net Position - Governmental Activities		$ 232,981,848.95

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 585,407.14	$	$
Federal Through State and Local	1,722,980.39	1,599,583.92	
State	97,820,689.65		
Local:			
Property Taxes	83,152,678.85		
Local Sales Taxes			
Charges for Services - Food Service			
Miscellaneous	6,067,728.80		114.55
Total Local Revenues	89,220,407.65		114.55
Total Revenues	189,349,484.83	1,599,583.92	114.55
Expenditures			
Current - Education:			
Instruction	129,248,242.87	139,002.97	
Student Personnel Services	7,642,959.56		
Instructional Media Services	2,379,225.31		
Instruction and Curriculum Development Services	2,437,453.27	94,857.04	
Instructional Staff Training Services	690,767.06	906,790.65	
Instruction Related Technology	6,604.40		
School Board	708,563.03		
General Administration	527,029.34	93,786.48	
School Administration	12,999,882.52		
Facilities Acquisition and Construction	527,383.11		
Fiscal Services	1,680,818.26		
Food Services	18,873.50		
Central Services	2,400,528.84	257,453.86	
Student Transportation Services	7,940,434.17	2,479.85	
Operation of Plant	14,157,215.24		
Maintenance of Plant	4,471,553.32		
Administrative Technology Services	2,990,220.41	91,985.18	
Community Services	1,584,038.25		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	1,464,386.99	13,227.89	
Debt Service:			
Principal			11,303,569.35
Interest and Fiscal Charges			4,304,918.80
Total Expenditures	193,876,179.45	1,599,583.92	15,608,488.15
Excess (Deficiency) of Revenues Over Expenditures	(4,526,694.62)		(15,608,373.60)
Other Financing Sources (Uses)			
Transfers In	2,550,556.02		15,614,334.37
Proceeds from Issuance of Refunding Certificates of Participation			
Payments to Refunded Certificates of Participation Escrow Agent			
Transfers Out			
Total Other Financing Sources (Uses)	2,550,556.02		15,614,334.37
Net Change in Fund Balances	(1,976,138.60)		5,960.77
Fund Balances, Beginning	28,436,625.33		230.85
Fund Balances, Ending	$ 26,460,486.73	$ 0.00	$ 6,191.62

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 1,200,128.71	$ 1,785,535.85
		21,026,304.96	24,348,869.27
		2,498,233.42	100,318,923.07
14,437,669.29			97,590,348.14
	17,850,803.92		17,850,803.92
		2,398,193.51	2,398,193.51
57,197.78	102,738.56	183,449.94	6,411,229.63
14,494,867.07	17,953,542.48	2,581,643.45	124,250,575.20
14,494,867.07	17,953,542.48	27,306,310.54	250,703,903.39
		8,262,833.24	137,650,079.08
		1,266,502.56	8,909,462.12
		34,632.45	2,413,857.76
		2,456,318.62	4,988,628.93
		879,622.94	2,477,180.65
			6,604.40
			708,563.03
		288,773.08	909,588.90
		72,562.26	13,072,444.78
1,110,131.37	3,660,444.78		5,297,959.26
		5,800.00	1,686,618.26
		10,256,220.07	10,275,093.57
		1,575.41	2,659,558.11
		20,170.40	7,963,084.42
		955.00	14,158,170.24
			4,471,553.32
			3,082,205.59
		1,200,128.71	2,784,166.96
1,385,083.08	12,803,871.74	130,140.83	14,319,095.65
1,021,291.00	582,899.85	643,275.36	3,725,081.09
	780,914.35	650,000.00	12,734,483.70
	142,511.63	190,895.68	4,638,326.11
3,516,505.45	17,970,642.35	26,360,406.61	258,931,805.93
10,978,361.62	(17,099.87)	945,903.93	(8,227,902.54)
			18,164,890.39
	7,152,900.00		7,152,900.00
	(7,077,462.50)		(7,077,462.50)
(10,843,680.69)	(7,762,685.70)	(1,390,590.00)	(19,996,956.39)
(10,843,680.69)	(7,687,248.20)	(1,390,590.00)	(1,756,628.50)
134,680.93	(7,704,348.07)	(444,686.07)	(9,984,531.04)
1,816,630.27	34,152,748.08	4,558,884.43	68,965,118.96
$ 1,951,311.20	$ 26,448,400.01	$ 4,114,198.36	$ 58,980,587.92

BAY 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, 2014

Net Change in Fund Balances - Governmental Funds		$ (9,984,531.04)
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.		(7,158,878.38)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 by which repayments exceed proceeds in the current fiscal year.		
Certificates of Participation Issued	$ (7,152,900.00)	
Repayment of Obligations Under Capital Lease	751,102.32	
Repayment of Bonds Principal	650,000.00	
Repayment of Notes Payable Principal	7,103,669.03	
Repayment of Certificates of Participation Principal	10,959,900.00	12,311,771.35
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the 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. (net of the $52,233.52 in the internal service fund)		400,696.67
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.		(24,322.00)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.		(727,513.62)
Change in Net Position - Governmental Activities		$ (5,182,777.02)

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2014

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,906,691.77	$ 14,961,032.79
Accounts Receivable	1,030.00	
Due From Other Funds	0.04	
Due From Other Agencies	62.50	122,502.43
Prepaid Expense		1,601,773.95
Total Current Assets	2,907,784.31	16,685,309.17
Noncurrent Assets:		
Furniture, Fixtures, and Equipment, Net	19,144.95	
TOTAL ASSETS	2,926,929.26	16,685,309.17
LIABILITIES		
Current Liabilities:		
Payroll Deductions and Withholdings	1,444.89	848.62
Accounts Payable	9,192.36	3,841.61
Due to Other Funds	50,312.35	
Advanced Revenue	429,696.27	
Compensated Absences Payable	20,278.59	6,566.57
Estimated Insurance Claims Payable		3,400,500.00
Total Current Liabilities	510,924.46	3,411,756.80
Noncurrent Liabilities:		
Compensated Absences Payable	82,180.90	26,266.24
Estimated Insurance Claims Payable		11,011,022.00
Total Noncurrent Liabilities	82,180.90	11,037,288.24
TOTAL LIABILITIES	593,105.36	14,449,045.04
NET POSITION		
Net Investment in Capital Assets	19,144.95	
Unrestricted	2,314,678.95	2,236,264.13
TOTAL NET POSITION	$ 2,333,823.90	$ 2,236,264.13

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	$ 1,411,183.82	$ 4,775,849.94
OPERATING EXPENSES		
Salaries	636,142.10	394,541.24
Employee Benefits	170,323.39	179,518.91
Purchased Services	330,010.58	387,237.71
Materials and Supplies	13,675.16	7,571.10
Capital Outlay	9,274.63	5,032.89
Insurance Claims		4,122,335.60
Insurance Premiums		2,351,799.51
Other Expenses	82,702.14	15,745.24
Depreciation	9,832.89	
Total Operating Expenses	1,251,960.89	7,463,782.20
Operating Income (Loss)	159,222.93	(2,687,932.26)
NONOPERATING REVENUES		
Interest Revenue	5,130.58	21,152.83
Federal Grants		75,000.00
State Grants		12,500.00
Miscellaneous Local Revenue		19,699.81
Total Nonoperating Revenues	5,130.58	128,352.64
Income (Loss) Before Transfers	164,353.51	(2,559,579.62)
Transfers In		1,832,066.00
Change in Net Position	164,353.51	(727,513.62)
Total Net Position - Beginning	2,169,470.39	2,963,777.75
Total Net Position - Ending	$ 2,333,823.90	$ 2,236,264.13

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	$ 1,167,914.64	$
Cash Received from Board Funds and Participants		4,773,193.51
Cash Payments to Suppliers for Goods and Services	(406,589.49)	(2,764,074.40)
Cash Payments to Employees for Services	(803,955.79)	(625,445.05)
Cash Payments for Insurance Claims		(4,058,631.60)
Net Cash Used by Operating Activities	(42,630.64)	(2,674,957.54)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from Federal and State Grants		87,500.00
Other Nonoperating Revenues		19,699.81
Transfers from Other Funds		1,832,066.00
Net Cash Provided by Noncapital Financing Activities		1,939,265.81
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(8,781.43)	
Net Cash Used by Capital and Related Financing Activities	(8,781.43)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturity of Investments		43,174.04
Interest Income	5,130.58	21,152.83
Net Cash Provided by Investing Activities	5,130.58	64,326.87
Net Decrease in Cash and Cash Equivalents	(46,281.49)	(671,364.86)
Cash and Cash Equivalents, Beginning	2,952,973.26	15,632,397.65
Cash and Cash Equivalents, Ending	$ 2,906,691.77	$ 14,961,032.79

Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:

Operating Income (Loss)	$ 159,222.93	$ (2,687,932.26)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:		
Depreciation	9,832.89	
Changes in Assets and Liabilities:		
Accounts Receivable	4,726.00	660.64
Due from Other Funds	(0.04)	
Due from Other Agencies	(62.50)	(3,317.07)
Prepaid Expenses		(529.56)
Payroll Deductions and Withholdings	1,444.89	848.62
Accounts Payable	5,263.61	3,841.61
Due to Other Funds	23,809.45	
Advanced Revenue	(247,932.68)	
Compensated Absences Payable	1,064.81	(52,233.52)
Estimated Insurance Claims Payable		63,704.00
Total Adjustments	(201,853.57)	12,974.72
Net Cash Used by Operating Activities	$ (42,630.64)	$ (2,674,957.54)

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2014

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	2,765,481.51
Accounts Receivable		195,008.82
Inventories		64,829.18
TOTAL ASSETS	$	3,025,319.51
LIABILITIES		
Accounts Payable	$	203,457.91
Internal Accounts Payable		2,821,861.22
TOTAL LIABILITIES	$	3,025,319.13

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

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Bay County School District's (District) governmental activities and for each segment of the business-type 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 and school board office are allocated to the student transportation services, operation of plant, and central services functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Bay 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 Bay 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. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

presented as funds of the District. The Bay County Educational Facilities Finance Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note III.I.2. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data from one foundation and ten charter schools. A separate column is used to emphasize that they are legally separate from the District.

The Bay Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The charter schools are Bay Haven Charter Academy, Inc., d/b/a Bay Haven Charter Academy Elementary School, Bay Haven Charter Academy Middle School, North Bay Haven Charter Elementary School, North Bay Haven Charter Middle School, and North Bay Haven Charter Career Academy; the Chautauqua Charter School, Inc., d/b/a Chautauqua Learn and Serve Charter School; Newpoint Bay, Inc., d/b/a Newpoint Bay Academy and Newpoint Bay Charter High School; Community Charter Academy, Inc., d/b/a University Academy, Inc.; and Rising Leaders Academy, Inc., d/b/a Rising Leaders Academy.

The charter schools are 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 is 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 District may choose not to renew the charters as specified in the charters, but the District must notify the charter schools in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a school is dissolved or terminated, any encumbered funds and all school property purchased with public funds shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown.

The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2014. The audit reports are filed in the District's administrative offices.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary 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 except for interfund services provided and used, and net residual amounts between governmental and business-type activities.

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, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the District's certificates of participation.
- 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, renovation and remodeling projects.
- Capital Projects – Other Fund – to account for the financial resources generated by the issuance of certificates of participation, sales tax revenue anticipation notes, and the discretionary sales surtax to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Enterprise Fund – Beacon Learning Center – to account for the financial activities and account balances of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.
- Internal Service Fund – to account for the District's self-insurance program.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

- 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.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal 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. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column. 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, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

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 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,

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

The Foundation is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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 cash on hand, 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, and Hancock Horizon Government Money Market Fund.

Cash deposits are held by banks qualified as public depositories under Florida law or through the Federally Insured Cash Account program, which complies with the provisions of Section 218.415(23), Florida Statutes, and is therefore exempt from Florida's public deposits program pursuant to Section 280.03(3)(f), Florida Statutes. 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 with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes and those held by a trustee pursuant to a trust agreement entered into and restricted as part of the financing agreement for the Certificates of Participation, Series 2004, Series 2007, Series 2010, and Series 2013. The 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.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

The investments held by the trustee are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost, except that transportation inventory is recorded at cost on the first-in, first-out basis and 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.

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

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. 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.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

Description	Estimated Lives
Improvements Other Than Buildings	9 - 37.5 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Property Under Capital Lease	5 - 37.5 years
Audio Visual Materials and Computer Software	5 years

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

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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.

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 and proprietary fund 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 committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, 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, committed fund balance is depleted first, followed by assigned fund balance. 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 may include 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 reported no committed fund balance at June 30, 2014.

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. The Board approves the

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

assignment of the fund balances. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent fiscal year's appropriated budget. 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.

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 or business segment 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 fiscal 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 fiscal 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 fiscal 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.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 Bay County Property Appraiser, and property taxes are collected by the Bay County Tax Collector.

The Board adopted the 2013 tax levy on September 10, 2013. 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 Bay 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. Capital Outlay Surtax

In November 2010, the voters of Bay County approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2011, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

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.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

7. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for online educational resources and professional development courses. Operating expenses include salaries, benefits, materials, purchased services, capital outlay, and depreciation related to the development of these online educational resources and professional development courses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the District's internal service fund are charges for property casualty and workers' compensation insurance. Operating expenses include insurance claims, excess coverage premiums, and related operating costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. PRIOR AUDIT ADJUSTMENTS AND ACCOUNTING CHANGE

A. Prior Period Adjustments

The Bay Haven Charter Academy Foundation, a discretely presented component unit of Bay Haven Charter Academy, Inc.; Bay Education Foundation, Inc.; Community Charter Academy, Inc.; and Rising Leaders Academy, Inc., were previously not reported as discretely presented component units although they should have been reported as such in accordance with generally accepted accounting principles. As such, the District increased beginning net position by $1,180,916 in the government-wide statement of activities.

B. Accounting Change

Bay Haven Charter Academy, Inc., implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the 2013-14 fiscal year. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items previously reported as assets and liabilities, respectively. As such, the District decreased the beginning net position by $590,987 in the government-wide statement of activities for debt issuance deferred charges of previously issued debt, which was previously reported as an asset.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

The above prior period adjustments and accounting change affect the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. The net position of the component units as a whole has been adjusted as follows:

Net Position, Beginning - Component Units	$ 9,715,878
Adjustments to Beginning Net Position:	
Addition of Bay Haven Charter Academy Foundation	804,735
Addition of Bay Education Foundation, Inc.	247,529
Addition of Community Charter Academy, Inc.	57,733
Addition of Rising Leaders Academy, Inc.	70,919
GASB 65 Implementation	(590,987)
Beginning Net Position, as Restated - Component Units	$ 10,305,807

III. 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 the District. 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.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance based on ending monthly balances.

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)(2)	40 Day Average	$ 33,102,778.51
Hancock Horizon Government Money Market Fund (1)(3)	56 Days	6,041,198.89
Total Investments		$ 39,143,977.40

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.

(2) Florida PRIME investments, totaling $846,828.64, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.

(3) The Hancock Horizon Government Money Market Fund invests exclusively in obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities, and repurchase agreements secured by such instruments. Shares in this fund are held as investments in the accounts governed by the trust agreements pursuant to the District's issues of Certificates of Participation, Series 2004, 2007, 2010, and 2013.

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- 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 limits the length of investments as follows: (1) investments of short-term funds shall have maturities of no longer than 12 months, and (2) investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate for the need for funds and in accordance with debt covenants, but in no event shall exceed five years. Investments of construction funds that are proceeds of tax-exempt debt issues shall have maturities of no longer than three years. Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. 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.

- 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 (SEC) 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 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to those prescribed by Florida Statutes.

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

  The District's investment in Hancock Horizon Government Money Market Fund was rated AAAm by Standard & Poor's.

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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	$ 16,304,369.20	$	$	$ 16,304,369.20
Construction in Progress	2,346,476.33	8,987,162.67	2,110,747.81	9,222,891.19
Total Capital Assets Not Being Depreciated	18,650,845.53	8,987,162.67	2,110,747.81	25,527,260.39
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	9,512,530.56	219,789.43		9,732,319.99
Buildings and Fixed Equipment	514,982,077.47	7,237,711.50		522,219,788.97
Furniture, Fixtures, and Equipment	35,872,484.89	1,531,732.89	1,755,590.26	35,648,627.52
Motor Vehicles	11,399,607.56	2,150,988.10	1,195,163.92	12,355,431.74
Property Under Capital Lease	3,951,183.65			3,951,183.65
Audio Visual Materials and Computer Software	8,839,384.27	20,327.21		8,859,711.48
Total Capital Assets Being Depreciated	584,557,268.40	11,160,549.13	2,950,754.18	592,767,063.35
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,875,066.26	409,370.82		5,284,437.08
Buildings and Fixed Equipment	243,996,119.93	19,682,654.95		263,678,774.88
Furniture, Fixtures, and Equipment	21,963,787.64	2,959,756.02	1,755,590.26	23,167,953.40
Motor Vehicles	10,484,660.48	668,960.35	1,195,163.92	9,958,456.91
Property Under Capital Lease	1,378,583.76	557,843.74		1,936,427.50
Audio Visual Materials and Computer Software	6,511,737.80	917,256.49		7,428,994.29
Total Accumulated Depreciation	289,209,955.87	25,195,842.37	2,950,754.18	311,455,044.06
Total Capital Assets Being Depreciated, Net	295,347,312.53	(14,035,293.24)		281,312,019.29
Governmental Activities Capital Assets, Net	$313,998,158.06	$(5,048,130.57)	$ 2,110,747.81	$306,839,279.68

The classes of property under capital leases are presented in note III.H.

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	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	$ 189,478.90	$ 8,781.43	$ 63,032.79	$ 135,227.54
Motor Vehicles	16,367.00			16,367.00
Audio Visual Materials and Computer Software	68,061.74		13,654.10	54,407.64
Total Capital Assets Being Depreciated	273,907.64	8,781.43	76,686.89	206,002.18
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	170,575.53	8,539.85	63,032.79	116,082.59
Motor Vehicles	16,367.00			16,367.00
Audio Visual Materials and Computer Software	66,768.70	1,293.04	13,654.10	54,407.64
Total Accumulated Depreciation	253,711.23	9,832.89	76,686.89	186,857.23
Total Capital Assets Being Depreciated, Net	20,196.41	(1,051.46)		19,144.95
Business-Type Activities Capital Assets, Net	$ 20,196.41	$ (1,051.46)	$ 0.00	$ 19,144.95

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	$ 558,691.62
Operation of Plant	40,805.96
Central Services	69,462.77
Unallocated	24,526,882.02
Total Depreciation Expense - Governmental Activities	$ 25,195,842.37
BUSINESS-TYPE ACTIVITIES	
Beacon Learning Center	$ 9,832.89

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

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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, except for members classified as special risk who are eligible for normal benefits at age 55 or at any age after 25 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, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of 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, 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 by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, Special Risk, 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.

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Special Risk Regular	3.00	19.06
DROP - Applicable to Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled $8,790,264.61, $9,003,434.06, and $12,297,017.74, respectively, which were equal to the required contributions for each fiscal year.

There were 451 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled $1,332,244.99, which was equal to the required contribution for the 2013-14 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, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department's Web site (www.myfloridacfo.com). 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, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division's Web site (www.frs.myflorida.com).

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 and prescription drug 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 subsidized)

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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. 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 2013-14 fiscal year, 266 retirees received other postemployment benefits. The District provided required contributions of $507,623 toward the annual OPEB cost, net of retiree contributions totaling $3,012,756 which represents 3.5 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)	$ 302,857
Amortization of Unfunded Actuarial Accrued Liability	218,054
Interest on Normal Cost and Amortization	11,592
Annual Required Contribution	532,503
Adjustment to Annual Required Contribution	(558)
Annual OPEB Cost (Expense)	531,945
Contribution Toward the OPEB Cost	(507,623)
Change in Net OPEB Obligation	24,322
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	$ 24,322

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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, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	$ 565,624	107.2%	$ 0
2012-13	588,985	100.0%	0
2013-14	531,945	95.4%	24,322

Funded Status and Funding Progress. As of July 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was $4,809,944, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $4,809,944 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $85,033,476, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.66 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 July 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 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, and an annual healthcare cost trend rate of 7 percent initially beginning in the 2013-14 fiscal year, reduced uniformly to an ultimate rate of 5 percent after 4 years. 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, 2014, was 23 years.

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F. Construction and Other 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, 2014:

Major Funds					
General	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
$ 769,939.44	$ 18,467.79	$ 1,412,035.95	$ 24,869,223.77	$ 637,630.58	$ 27,707,297.53

Construction Contracts. Encumbrances include the following major construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Mosley High School Renovations:			
Architect	$ 440,500.00	$ 371,700.00	$ 68,800.00
Contractor	5,120,365.93	175,077.26	4,945,288.67
Direct Purchase Orders	1,249,295.07	163,973.74	1,085,321.33
Rutherford High School Renovations:			
Architect	602,643.00	506,220.12	96,422.88
Contractor	7,042,976.06	2,086,283.56	4,956,692.50
Direct Purchase Orders	3,163,577.94	651,603.69	2,511,974.25
Springfield Elementary Cafeteria and Renovations:			
Architect	330,890.00	281,256.50	49,633.50
Contractor	2,711,260.03	419,675.00	2,291,585.03
Direct Purchase Orders	1,344,916.97	327,797.00	1,017,119.97
North Bay Haven Charter Academy Gymnasium:			
Contractor	3,000,000.00	1,007,324.70	1,992,675.30
Total	$ 25,006,425.00	$ 5,990,911.57	$ 19,015,513.43

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. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. The District has

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contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

A liability in the amount of $14,411,522 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2014. The loss estimates include legal and certain other expenses associated with claims settlements (allocated loss adjustment expenses). These estimates do not include provisions for unallocated loss adjustment expenses, such as fees for the claim administrators or other miscellaneous costs associated with claims settlements. Liabilities for unpaid workers' compensation claims and claims adjustment expenses were discounted and reported at their present value using an investment yield rate of 4 percent.

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012-13	$ 14,100,605.00	$ 3,843,360.00	$ (3,596,147.00)	$ 14,347,818.00
2013-14	14,347,818.00	4,122,335.60	(4,058,631.60)	14,411,522.00

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

H. Obligations Under Capital Leases

The classes and amounts of property being acquired under capital leases are as follows:

	Asset Balances
Computer Equipment and Software	$ 1,419,874.56
Telephone System	1,001,402.09
Modular Buildings	1,529,907.00
Total	$ 3,951,183.65

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Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2015	$ 854,830.65	$ 808,926.62	$ 45,904.03
2016	613,393.57	596,593.23	16,800.34
2017	136,222.42	133,416.68	2,805.74
Total Minimum Lease Payments	$ 1,604,446.64	$ 1,538,936.53	$ 65,510.11

The stated and imputed interest rates range from 2.42 to 5.75 percent.

I. Long-Term Liabilities

1. Notes Payable

Notes payable at June 30, 2014, are as follows:

	Balance at June 30
Sales Tax Revenue Anticipation Note, Series D	
$30,105,500, Borrowed 6-21-11, Under Provisions of Section 1011.14, Florida Statutes. Interest Rate of 1.7 Percent. Proceeds Used for Renovations at Surfside Middle School, Infrastructure and Technology Upgrades at Various Schools, and Technology Equipment at Various Schools within the District. The Total Principal and Interest Remaining to be Paid on the Note is $12,583,248.41. Principal and Interest Paid for the Current Year and Total Pledged Revenues were $6,291,623.72 and $12,583,248.41, Respectively.	$ 12,345,963.63
Ascending Lien Sales Tax Revenue Anticipation Note, Series 2013	
$25,115,000, Borrowed 3-26-13, Under Provisions of Section 1011.14, Florida Statutes. Interest Rate of 1.5 Percent. Proceeds Used for Various Construction and Renovation Projects Included in the List of Projects Approved by the Half Cent Sales Tax Committee. The Total Principal and Interest Remaining to be Paid on the 2013 Note is $25,444,655.00. Principal and Interest Paid for the Current Year were $1,456,635.00. The Series 2013 Note is Subordinate to the Series D Note with all Sales Tax Revenues Remaining after Payment of the Series D Note to be Pledged.	24,029,000.00
Total Notes Payable	$ 36,374,963.63

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Amounts payable for the planned extended repayment of the Section 1011.14, Florida Statutes, notes payable are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2015	$ 7,747,879.29	$ 7,222,624.00	$ 525,255.29
2016	7,747,259.12	7,343,339.63	403,919.49
2017	5,798,612.50	5,506,000.00	292,612.50
2018	5,148,888.75	4,932,000.00	216,888.75
2019	5,149,488.75	5,007,000.00	142,488.75
2020 -2021	6,435,775.00	6,364,000.00	71,775.00
Total	$ 38,027,903.41	$ 36,374,963.63	$ 1,652,939.78

2. Certificates of Participation

The District entered into a financing arrangement on November 1, 1994, which was characterized as a master lease-purchase agreement, with the Bay County Educational Facilities Finance Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of $23,715,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1994, to be repaid from the proceeds of rents paid by the District.

On February 1, 1999, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $41,500,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1999, to be repaid from the proceeds of rents paid by the District. As noted below, the District issued Refunding Certificates of Participation, Series 2010, to refund the outstanding Certificates of Participation, Series 1999.

On July 1, 2004, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $11,310,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2004, to be repaid from the proceeds of rents paid by the District. As noted below and in note III.I.4, Defeased Debt, the District issued Refunding Certificates of Participation, Series 2013, to refund the outstanding Certificates of Participation, Series 2004.

On April 1, 2007, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $49,330,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2007, to be repaid from the proceeds of rents paid by the District.

On July 16, 2010, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2010, in the amount of $37,090,000 to refund the outstanding Refunding Certificates of Participation, Series 1999.

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On July 25, 2013, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2013, in the amount of $7,152,900 to refund the outstanding Refunding Certificates of Participation, Series 2004.

As a condition of these financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of $10 per year. The initial term of the lease commenced on November 1, 1994, and ends on the earlier of (a) payment of the outstanding Series 2007 Certificates, Series 2010 Certificates, and Series 2013 Certificates, or (b) June 30, 2034. 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 to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be through June 30, 2034.

The District properties included in the ground lease under the master lease-purchase arrangement include properties at Patronis Elementary School, Lucille Moore Elementary School, Robert L. Young Service Center, J.R. Arnold High School, Emerald Bay Academy, New Horizons Learning Center, Breakfast Point Academy, and Deer Point Elementary School.

The Certificates of Participation, Series 2007, include outstanding serial certificates maturing from 2014 through 2029. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.75 to 5 percent.

The Refunding Certificates of Participation, Series 2010, include outstanding serial certificates maturing from 2014 through 2023. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate ranging from 2.25 to 4.5 percent.

The Refunding Certificates of Participation, Series 2013, include outstanding serial certificates maturing from 2014 through 2023. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 2.21 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
2015	$ 7,862,274.80	$ 4,318,100.00	$ 3,544,174.80
2016	7,861,151.30	4,430,700.00	3,430,451.30
2017	7,862,113.32	4,564,700.00	3,297,413.32
2018	7,862,379.46	4,715,700.00	3,146,679.46
2019	7,859,563.98	4,874,400.00	2,985,163.98
2020-2024	38,583,602.48	26,529,400.00	12,054,202.48
2025-2029	40,128,025.00	34,810,000.00	5,318,025.00
Total Minimum Lease Payments	$ 118,019,110.34	$ 84,243,000.00	$ 33,776,110.34

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3. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 2,830,000	5	2018
Series 2009A, Refunding	145,000	5	2019
Total Bonds Payable	$ 2,975,000		

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.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2015	$ 833,750	$ 685,000	$ 148,750
2016	834,500	720,000	114,500
2017	838,500	760,000	78,500
2018	835,500	795,000	40,500
2019	15,750	15,000	750
Total	$ 3,358,000	$ 2,975,000	$ 383,000

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

4. Defeased Debt

On July 25, 2013, the Board issued $7,152,900 in Refunding Certificates of Participation, Series 2013, with an interest rate of 2.21 percent, to advance-refund the District's Refunding Certificates of Participation, Series 2004. The net proceeds of $7,077,462.50 (after payment of $69,591.56 in attorney fees and other issuance costs) were deposited with the trustee. As a result, $6,760,000 of the Certificates of Participation, Series 2004, are considered to be in-substance defeased and the liability for these Certificates of Participation has been removed from the government-wide financial statements.

The Certificates of Participation, Series 2004, were refunded to reduce its total debt service payments over the next 10 years by $888,371.17 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $705,501.41. On July 1, 2014, the District called the Refunding Certificates of Participation, Series 2004, totaling $6,760,000, at 100 percent.

5. 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					
Obligations Under Capital Leases	$ 2,290,038.85	$	$ 751,102.32	$ 1,538,936.53	$ 808,926.62
Bonds Payable	3,625,000.00		650,000.00	2,975,000.00	685,000.00
Sales Tax Revenue Anticipation Notes Payable	43,478,632.66		7,103,669.03	36,374,963.63	7,222,624.00
Certificates of Participation Payable	88,050,000.00	7,152,900.00	10,959,900.00	84,243,000.00	4,318,100.00
Estimated Insurance Claims Payable	14,347,818.00	4,122,335.60	4,058,631.60	14,411,522.00	3,400,500.00
Compensated Absences Payable	10,403,823.62	641,024.87	1,093,955.06	9,950,893.43	2,080,764.35
Other Postemployment Benefits Payable		531,945.00	507,623.00	24,322.00	
Total Governmental Activities	$ 162,195,313.13	$ 12,448,205.47	$ 25,124,881.01	$ 149,518,637.59	$ 18,515,914.97
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	$ 101,394.68	$ 6,408.57	$ 5,343.76	$ 102,459.49	$ 20,278.59

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with resources of the proprietary funds, as discussed in note I.

J. 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.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

- **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.

K. Interfund Receivables and Payables

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 1,349,887.54	$ 51,060.13
Special Revenue:		
Federal Economic Stimulus	0.02	96,644.33
Capital Projects:		
Local Capital Improvement	591,559.08	88,220.99
Other		570,290.08
Enterprise:		
Beacon Learning Center	0.04	50,312.35
Nonmajor Governmental	94.57	1,085,013.37
Total	$ 1,941,541.25	$ 1,941,541.25

Interfund receivables and payables are primarily to reimburse the General Fund for expenditures paid on behalf of other funds and to reimburse the Capital Projects – Local Capital Improvement Fund for expenditures paid on behalf of the Capital Projects – Other Fund.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

L. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2013-14 fiscal year:

Source	Amount
Florida Education Finance Program	$ 61,728,426.00
Categorical Educational Program - Class Size Reduction	29,080,961.00
Workforce Development Program	3,178,554.00
Voluntary Prekindergarten Program	1,681,969.28
Charter School Capital Outlay	1,390,590.00
School Recognition	1,081,278.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	830,087.52
Discretionary Lottery Funds	258,968.00
Capital Outlay and Debt Service Distributed	151,545.94
Food Service Supplement	136,030.00
Moblie Home License Tax	46,914.36
Miscellaneous	766,098.97
Total	$ 100,331,423.07

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 2013 tax roll for the 2013-14 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.013	$ 74,862,359.40
Basic Discretionary Local Effort	0.748	11,170,366.01
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.000	14,933,644.40
Total	6.761	$ 100,966,369.81

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

M. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 2,550,556.02	$
Debt Service:		
Other	15,614,334.37	
Capital Projects:		
Local Capital Improvement		10,843,680.69
Other		7,762,685.70
Nonmajor Governmental		1,390,590.00
Internal Service	1,832,066.00	
Total	$ 19,996,956.39	$ 19,996,956.39

The interfund transfers are mainly to provide for debt repayments and to assist in financing maintenance operations of the District. Additionally, funds were transferred from Capital Projects – Local Capital Improvement Fund to the internal service fund for property casualty insurance premiums.

IV. SUBSEQUENT EVENTS

On February 25, 2014, the District received a final program review determination from the United States Department of Education (Department) regarding the Tom P. Haney Technical Center's administration of Student Financial Assistance Cluster grant funds in the 2009-10 and 2010-11 award years. The Department determined that the District should repay $2,848,446 in grant funds due to findings in the program review. The District filed an appeal, and a settlement agreement was entered into on December 9, 2014, between the Department and the District. The terms of the settlement are that the District will pay the Department $850,200 plus interest over the course of 36 months beginning January 1, 2015.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

BAY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 541,842.00	$ 569,671.25	$ 585,407.14	$ 15,735.89
Federal Through State and Local	300,000.00	594,323.44	1,722,980.39	1,128,656.95
State	96,214,885.00	97,928,028.80	97,820,689.65	(107,339.15)
Local:				
Property Taxes	82,614,791.00	82,614,791.00	83,152,678.85	537,887.85
Miscellaneous	2,060,637.00	4,277,930.17	6,067,728.80	1,789,798.63
Total Local Revenues	84,675,428.00	86,892,721.17	89,220,407.65	2,327,686.48
Total Revenues	181,732,155.00	185,984,744.66	189,349,484.83	3,364,740.17
Expenditures				
Current - Education:				
Instruction	138,426,658.00	139,889,481.14	129,248,242.87	10,641,238.27
Student Personnel Services	7,639,558.00	7,926,881.49	7,642,959.56	283,921.93
Instructional Media Services	2,596,375.00	2,301,541.78	2,379,225.31	(77,683.53)
Instruction and Curriculum Development Services	2,464,680.00	2,635,316.37	2,437,453.27	197,863.10
Instructional Staff Training Services	571,202.00	802,862.44	690,767.06	112,095.38
Instruction Related Technology	1,670.00	8,374.36	6,604.40	1,769.96
School Board	898,051.00	913,035.94	708,563.03	204,472.91
General Administration	784,192.00	542,427.73	527,029.34	15,398.39
School Administration	13,028,376.00	13,154,871.61	12,999,882.52	154,989.09
Facilities Acquisition and Construction	470,563.00	550,227.84	527,383.11	22,844.73
Fiscal Services	1,704,958.00	1,753,925.03	1,680,818.26	73,106.77
Food Services		10,074.41	18,873.50	(8,799.09)
Central Services	2,577,021.00	2,923,153.08	2,400,528.84	522,624.24
Student Transportation Services	9,423,264.00	8,197,396.27	7,940,434.17	256,962.10
Operation of Plant	14,744,398.00	15,694,237.50	14,157,215.24	1,537,022.26
Maintenance of Plant	5,057,970.00	5,068,002.46	4,471,553.32	596,449.14
Administrative Technology Services	2,977,424.00	3,235,423.13	2,990,220.41	245,202.72
Community Services	1,679,703.00	1,719,944.02	1,584,038.25	135,905.77
Fixed Capital Outlay:				
Other Capital Outlay		3,127,126.79	1,464,386.99	1,662,739.80
Total Expenditures	205,046,063.00	210,454,303.39	193,876,179.45	16,578,123.94
Deficiency of Revenues Over Expenditures	(23,313,908.00)	(24,469,558.73)	(4,526,694.62)	19,942,864.11
Other Financing Sources				
Transfers In	1,571,357.00	2,961,947.00	2,550,556.02	(411,390.98)
Net Change in Fund Balances	(21,742,551.00)	(21,507,611.73)	(1,976,138.60)	19,531,473.13
Fund Balances, Beginning	28,436,625.00	28,436,625.00	28,436,625.33	0.33
Fund Balances, Ending	$ 6,694,074.00	$ 6,929,013.27	$ 26,460,486.73	$ 19,531,473.46

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 1,570,168.00	$ 1,702,203.40	$ 1,599,583.92	$ (102,619.48)
1,570,168.00	1,702,203.40	1,599,583.92	(102,619.48)
194,633.00	157,203.24	139,002.97	18,200.27
132,923.00	95,153.22	94,857.04	296.18
636,630.00	974,610.27	906,790.65	67,819.62
113,831.00	107,775.84	93,786.48	13,989.36
382,567.00	258,984.05	257,453.86	1,530.19
	2,791.37	2,479.85	311.52
109,584.00	92,457.28	91,985.18	472.10
	13,228.13	13,227.89	0.24
1,570,168.00	1,702,203.40	1,599,583.92	102,619.48
$ 0.00	$ 0.00	$ 0.00	$ 0.00

BAY 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]
July 1, 2010	$ 0	$ 5,551,029	$ 5,551,029	0.0%	$ 87,549,540	6.34%
July 1, 2012	0	5,440,590	5,440,590	0.0%	85,435,020	6.37%
July 1, 2014	0	4,809,944	4,809,944	0.0%	85,033,476	5.66%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

BAY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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, student 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. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2014, expenditures exceeded appropriations for the following individual funds:

Fund/Activity	Expenditures Budget	Actual	Variance Unfavorable
General:			
Instruction and Curriculum Development Services	$ 2,301,541.78	$ 2,379,225.31	$ (77,683.53)
Food Services	10,074.41	18,873.50	(8,799.09)

III. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2014, unfunded actuarial accrued liability of $4,809,944 was lower than the July 1, 2012, liability of $5,440,590 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The mortality rates were increased from the prior valuation.
- The health-care cost trend rate is expected to increase at a lesser rate than in the previous valuation.
- The number of covered employees decreased 2.56 percent and the number of covered retirees decreased 4.66 percent. While the average salary per employee increased 2.14 percent, the total covered payroll decreased 0.47 percent.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

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	13002	$ 1,355,563.59	$
National School Lunch Program	10.555 (2)	13001, 13003	6,095,243.35	
Summer Food Service Program for Children	10.559	323, 325, 13006, 13007	165,379.26	
Total Child Nutrition Cluster			7,616,186.20	
Fresh Fruit and Vegetable Program	10.582	13004	18,036.53	
Total United States Department of Agriculture			7,634,222.73	
United States Department of Labor:				
Indirect:				
Gulf Coast Workforce Development Board, Inc.:				
WIA Youth Activities	17.259	None	139,167.54	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	315,092.35	
Federal Pell Grant Program	84.063	N/A	1,315,569.98	
Total Direct			1,630,662.33	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (4)	263	5,703,819.97	65,903.18
Special Education - Preschool Grants	84.173	267	210,846.73	
Washington County District School Board:				
Special Education - Grants to States	84.027 (4)		11,886.84	
Total Special Education Cluster			5,926,553.54	65,903.18
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	146,613.39	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	5,932,819.39	
Career and Technical Education - Basic Grants to States	84.048	161	332,709.62	
Education for Homeless Children and Youth	84.196	127	75,859.77	
Twenty-First Century Community Learning Centers	84.287	244	24,946.28	
English Language Acquisition State Grants	84.365	102	128,779.03	
Improving Teacher Quality State Grants	84.367	224	835,688.05	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	RD211, RG311, RG411, RL111	1,599,583.92	
Washington County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	None	12,000.00	
Total Indirect			15,015,552.99	65,903.18
Total United States Department of Education			16,646,215.32	65,903.18
United States Department of Health and Human Services:				
Indirect:				
Big Bend Community-Based Care:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	BD202	99,322.39	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Hazard Mitigation Grant	97.039	14-FS-8Q-01-13-14-500	75,000.00	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	190,315.69	
Total United States Department of Homeland Security			265,315.69	
United States Department of Defense:				
Direct:				
Marine Corps Junior Reserve Officers Training Corps	None	N/A	62,104.77	
Navy Junior Reserve Officers Training Corps	None	N/A	60,833.75	
Air Force Junior Reserve Officers Training Corps	None	N/A	145,869.27	
Total United States Department of Defense			268,807.79	
Total Expenditures of Federal Awards			$ 25,053,051.46	$ 65,903.18

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 $715,805.39 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation. Cash in lieu of donated foods of $658.53 is included in this amount.

(3) Impact Aid. Expenditures are for award number S041B-2014-1234.

(4) Special Education - Grant to States. Total CFDA No. 84.027 expenditures: $5,715,706.81.

(5) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: $1,611,583.92.

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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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2014, 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 17, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the Tom P. Haney Technical Center school internal funds and the aggregate discretely presented component units, as described in our report on the District'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 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 17, 2015

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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 Bay 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, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-001. Our opinion on each major Federal program is not modified with respect to these matters.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-001 that we consider to be a significant deficiency.

Management's Response

Management's response to the findings identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 17, 2015

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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?	Yes
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?	Yes

Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.063	Federal Pell Grant Program
84.027 and 84.173	Special Education 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:	$751,591
Auditee qualified as low-risk auditee?	No

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

ADDITIONAL MATTERS

Finding No. 1: Journal Entries

The Finance Department was responsible for maintaining financial records, including recording journal entries of adjustments to account balances and transactions and related financial reporting. Although the Manager of Financial Services (MFS) was responsible for reviewing and approving monthly journal entry reports, District personnel were unable to provide evidence documenting the MFS's approval of these reports for the 2013-14 fiscal year because the reports were moved to storage and could not be located.

Our tests did not disclose any inappropriate or inadequately supported journal entries; however, our procedures cannot substitute for management's responsibility to implement adequate controls over journal entries. Documented supervisory review and approval of journal entries decreases the risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure documented supervisory review and approval of journal entries.

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains manual signatures of the Board Chair, Superintendent, and employees authorized to initiate EFTs.

During the 2013-14 fiscal year, the District regularly used EFTs to make electronic disbursements for direct deposit of employee pay, payroll-related tax and retirement payments, debt service payments, and purchases and sales of investments. According to District records, cash and cash equivalents totaling $84.8 million were available for electronic transfer at June 30, 2014. The Board established EFT agreements with four banks and the State Board of Administration to provide various services, such as EFTs; however controls over the EFT process could be enhanced as follows:

- While the District used informal processes including EFT control documents, such as transfer requests from various departments, transfer confirmations that included the name of the employee initiating the transfer,

and approval of the transfer by the Superintendent's designee, the Board had not adopted written policies prescribing the accounting and control procedures of EFT's, contrary to Section 1010.11, Florida Statutes.

- Each agreement contained the Superintendent's signature; however, three of the four agreements did not contain the Board Chair's signature, contrary to SBE Rule 6A-1.0012, FAC.
- Each agreement designated one or more District personnel to make EFTs. However, one agreement lacked the signature for one of the two persons designated to make EFTs, and one agreement did not contain the signatures of the three employees designated to make EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizer of EFTs and management review of EFT transactions, to compensate, in part, for the lack of formal written investment policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, under the above conditions there was an increased risk that errors or fraud could occur and not be timely detected. In August 2014, the Board revised its policies to include accounting and control procedures for EFTs pursuant to Section 1010.11, Florida Statutes. Similar findings were noted in the two preceding financial audit reports.

Recommendation: The District should continue its efforts to enhance EFT controls by including required signatures in EFT agreements.

Finding No. 3: Food Service Collections

The District reported local food service collections totaling $2.4 million for 33 school cafeterias for the 2013-14 fiscal year. Collections at Arnold High School and Mowat Middle School totaled $209,812 and $146,449, respectively. Our reviews indicated that controls over collections were generally adequate; however, our observation of lunch collection procedures disclosed certain deficiencies at Arnold High School (AHS).

At AHS, a point-of-sale (POS) system was used to account for breakfast and lunch sales. While there were six cashiers operating six POS system registers during each school day, three cashiers logged onto the POS system using one user identification (ID) number and the lunchroom manager allowed another cashier to use her POS terminal using her ID number and cash drawer. Without use of separate user ID numbers and separate cash drawers, the District may be limited in its ability to timely detect errors or fraud and fix responsibility should a loss of collections occur. A similar finding was noted in our report No. 2012-157.

Recommendation: The District should enhance procedures over food service collections to provide for use of separate ID numbers and separate cash drawers to promote proper accountability over meal sales.

Finding No. 4: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the District Purchasing Department required every bidder to complete a disclosure form indicating if they were an officer or employee of the District.

The Superintendent, Board members, Executive Director for Business Support Services, and General Manager of Purchasing, Contracting, and Materials Management were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While the statements of financial interests were filed as required, these statements were not provided to personnel responsible for procurement decisions for review. We reviewed the most recent required statements of financial interests and noted no apparent conflicts of interest. Providing for routine review

and consideration of required statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should strengthen its procedures to provide for routine review of required statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 5: Construction Management Services – Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. To appropriately monitor CME activities and ensure net cost savings are achieved for construction projects, it is important for the District to review documentation submitted by the CME to support payment requests.

In April 2013, the District approved a GMP contract with a CME for the Mowat Middle School Building 9 renovation project totaling $1,498,789. Our review disclosed that controls over construction administration could be enhanced, as follows:

- During the 2013-14 fiscal year, the CME was paid $1.2 million and District personnel evidenced preapproval of these expenditures by signing payment applications from the CME; however, the applications were not supported by detailed invoices upon payment. For three applications from the CME totaling $959,000, the District received an application and continuation sheet that reflected the schedule of values and the work completed to date. District personnel indicated that review procedures included verifying the mathematical accuracy, recalculating retainage, and verifying that prior payments were properly applied to the application. District personnel further indicated that verification of the percentage of completion for the various subcontractors was based on visual inspection by District personnel and the architect, as well as a consistent presence by District personnel at the work site. However, District personnel did not document the verification of amounts requested for payment on corresponding cost line(s) on the schedule of values to subcontractors' detailed invoices. Without procedures to sufficiently and appropriately reconcile CME payment applications to detailed supporting documentation, such as subcontractor invoices, the risk increases that overpayments to CMEs may occur and not be timely detected and corrected.
- Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. District personnel indicated that they relied on the CME to verify the licensure of subcontractors. However, District records did not evidence CME or District verification of subcontractor licenses. We selected four specialty subcontractors and verified that they were properly licensed; however, our procedures do not substitute for the District's responsibility to monitor construction activities. Monitoring of the CME's verification of subcontractor licenses provides the District additional assurance that subcontractors working on District facilities meet the qualifications to perform the work for which they are engaged.

A similar finding was noted in our report No. 2012-157.

Recommendation: The District should enhance its procedures for monitoring payment requests to require reconciliation of cost items per CME payment requests to supporting documentation, such as subcontractor invoices, before payments are made. The District should also enhance its procedures to monitor verification of subcontractors' licensure status prior to commencement of work on projects.

Finding No. 6: Design Professionals – Liability Insurance

The Board contracted with several design professionals during the 2013-14 fiscal year to prepare architectural plans for various projects. District procedures required architects to maintain $1 million per claim of professional liability insurance, with the District listed as the insured. We reviewed three renovation projects: Rutherford High School, Cedar Grove Elementary School, and Hiland Park Elementary School with estimated project costs of $10.2 million, $2.5 million, and $7.5 million, respectively. We noted the amount of insurance coverage was $1 million per claim and $1 million annual aggregate for the Rutherford High School and Cedar Grove Elementary School projects, and $1 million per claim and $2 million annual aggregate for Hiland Park Elementary School project. Although the design professional contracts contained insurance requirements, the Board had not adopted a policy establishing insurance requirements for design professionals, such as architects and engineers, and District records did not evidence the basis for the differing insurance requirements of the three design professionals.

Without a Board policy addressing the amount of professional liability insurance coverage to be required for design professionals, it was not apparent how District personnel determined the professional insurance that should be provided by the design professionals to protect the District's investment in the construction projects. Developing a policy prescribing the types and amounts of insurance coverage for design professionals would help provide guidance to District personnel as to the Board's insurance philosophy and protect the District in the event that deficiencies in work performed by a design professional causes injury to persons or damage to property, or the design professional defaults on contractual obligations.

Recommendation: The Board should adopt a policy establishing liability insurance requirements for design professionals.

Finding No. 7: Health Insurance Plan – Participant Eligibility

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute $631.46 for support personnel and $602.30 for all other personnel toward the health insurance of each full-time employee and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan upon employment, during open enrollment periods, and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. For the 2013-14 fiscal year, 2,198 employees contributed a total of $3.3 million and 316 retirees contributed a total of $2.6 million to participate in the District's health insurance plan, and the District contributed $15.9 million toward the plan. Also, there were 810 dependents who participated in the health insurance plan.

District personnel reconciled health insurance premiums to payroll records to ensure that insurance premiums were only for eligible employees and retirees. However, the District did not require employees or retirees purchasing health

insurance for their dependents to provide documentation, such as birth certificates, evidencing the dependents' eligibility. Without verifying the eligibility of dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Although employees and retirees are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increase in health insurance premiums paid by the District for employee's healthcare coverage.

Recommendation: The District should enhance its procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 8: Virtual Instruction Program - Policies and Procedures

Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes 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 the VIP; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2013-14 fiscal year, 140 full-time and 190 part-time students participated in the District's VIP. The District had written policies and procedures addressing student eligibility, student progression requirements, attendance, mandated testing, and other procedures related to the VIP; however, the procedures could be expanded to include more detailed instructions for personnel charged with administering the VIP regarding matters such as provider contracts, required written notices, instructional materials, and computing resources. The procedures could also be expanded to provide guidance on monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require District personnel to confirm Florida teaching certificates with the Florida Department of Education (FDOE) and survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services.

Comprehensive, written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in Finding Nos. 9 through 11.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

Finding No. 9: Virtual Instruction Program - Options

Section 1002.45(1)(b), Florida Statutes, requires school districts, under certain conditions, to provide students the option of participating in a VIP. For example, students may choose VIP services provided by the school district,

Florida Virtual School, another approved provider, another school district, or a virtual charter school. Pursuant to Section 1002.45(1)(b), Florida Statutes, school districts that are not considered to be in sparsely-populated counties, as discussed in Section 1011.62(7), Florida Statutes, must provide students with at least three options to participate in virtual instruction. As the District is not in a sparsely-populated county, the District must offer at least three VIP types for all grade levels within the District's VIP.

The District provided students in grades kindergarten through 5 three VIP options; however, for the 2013-14 fiscal year, the District provided students in grades 6 through 12 only two options. As a result, the District did not provide all students in all grade levels at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and limited student access to the different virtual instruction types. District personnel indicated that they thought they offered another option to grades 6 through 12, which included courses identified as additional virtual course offerings. However, the course offerings were not considered a viable option because the additional courses are not one of the options for the District VIP prescribed in Section 1002.45(1)(c), Florida Statutes, but are virtual education courses offered at the District level pursuant to Section 1003.498, Florida Statutes. District personnel indicated that the District contracted with an additional FDOE-approved provider for the 2014-15 school year to provide another VIP option.

Recommendation: The District should continue its efforts to ensure that it offers at least the minimum number of VIP options for all grades as required by law.

Finding No. 10: Virtual Instruction Program - Provider Contracts

The District entered into a contract with an FDOE-approved VIP provider for the 2013-14 fiscal year and an additional FDOE-approved VIP provider for the 2014-15 fiscal year. Our review of the contracts with the VIP providers disclosed that the contracts lacked statutorily required or necessary provisions, as follows:

- The contracts did not provide for the District to monitor the providers' compliance with contract terms or quality of virtual instruction. Without such provisions, the District may be limited in its ability to perform such monitoring. Such monitoring could include confirmation or verification that the providers protected the confidentiality of student records and supplied students with necessary instructional materials.
- One contract did not include agreed upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)8.e., Florida Statutes, which requires that FDOE-approved providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes.
- The contracts included no provisions for data quality requirements. The providers maintain significant amounts of education data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly it is essential that accurate and complete data maintained by the providers on behalf of the District be available in a timely manner and adequately safeguarded. Inclusion of data quality requirements would help ensure that the District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to providers.
- The contracts contained requirements for the providers to implement, maintain, and use appropriate administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Educational Rights and Privacy Act, to maintain the confidentiality of education records. However, the contracts did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive education data. Without specifying the minimum required security controls, there is an increased risk that deficiencies in information security and other information technology controls may occur.

Section 1002.45(2)(a)8.e., Florida Statutes, requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated with school districts. The District's contract with one FDOE-approved provider established student ratios ranging from 30:1 for grades kindergarten through 3 part-time to 250:1 for grades 9 through 12 elective courses. However, District records did not evidence how the District determined the reasonableness of the established ratios. Without documenting the reasonableness of established ratios, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.

Recommendation: The District should ensure that statutorily required and other necessary provisions are included in contracts with VIP providers. The District should also document the reasonableness of student-teacher ratios established in VIP provider contracts.

Finding No. 11: Virtual Instruction Program - Provider Background Screenings

Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel. The District's FDOE-approved provider for the 2013-14 fiscal year gave a list of its employees and contracted personnel subjected to the required screenings to the District; however, the list excluded the dates of the required background screenings for the provider's instructional employees. Subsequent to our inquiry, the District obtained a list from the provider that identified the dates of the instructional employees' background screenings.

Without effective controls to ensure that background screenings of VIP provider employees and contracted personnel are performed, there is an increased risk that these individuals may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data and information technology resources.

Recommendation: The District should ensure that the required background screenings are performed for all VIP provider employees and contracted personnel.

Finding No. 12: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting employees access to IT resources based on a demonstrated need to view, change, or delete data and restricting employees from performing incompatible functions or functions outside of their areas of responsibility. Periodic reviews of assigned IT access privileges helps ensure that employees cannot access or modify data and IT resources inconsistent with their assigned job responsibilities.

Our review of selected access privileges to the District's network disclosed that an Instructional Network Specialist had been granted administrator privileges within the District's network domain, which were unnecessary for their day-to-day assigned responsibilities. Administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network resources. When complete network access privileges are unnecessarily granted, the risk is increased that unauthorized or unintentional network hardware, software, or configuration changes may occur and not be timely detected. District management indicated that the access privileges inadvertently had not been removed subsequent to the completion of a network server project. In response to our inquiry, District management removed the administrator access privileges.

In addition, although the District periodically reviewed application access privileges, the District had not developed procedures for the periodic review of network access privileges. The existence of the unnecessary access privileges described above indicated a need for an improved review of network access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. District management indicated that, as of August 2014, the District implemented an automated access control system that systematically grants or removes employee access privileges based on updates within the District's Human Resources application. A similar finding was noted in our report No. 2012-157.

Recommendation: In addition to the use of an automated access control system, the District should develop procedures for the periodic review of network access privileges to ensure that critical access privileges are necessary for assigned job responsibilities.

Finding No. 13: Information Technology – Timely Deactivation of Access Privileges

Effective management of IT access privileges includes the timely deactivation of IT access privileges when an employee is terminated. Prompt action is necessary to ensure that access privileges of former employees are not used by the former employees or others to compromise data or IT resources.

Certain critical application systems and confidential or sensitive information stored within individual users' documents are accessible through the District's network. As part of the District's manual deactivation process, principals or department directors were responsible for notifying the IT department of employee terminations and the need for deactivating network access. Our test of 25 former District employees, who had terminated employment from July 1, 2013, through February 3, 2014, disclosed that network access privileges of 3 former employees remained active for a period of 46 to 187 days after termination of employment. In response to our inquiry, 1 of the 3 former employees' network access privileges was deactivated on February 4, 2014. District personnel indicated that the other 2 former employees were rehired subsequent to their termination date; however, their network access privileges remained active during the time they were not District employees. When network 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 response to our inquiry, District management indicated that the manual termination process had not been satisfactory for the timely deactivation of former employees' network access privileges and that the implementation of the automated access control system referred to Finding No. 12 would result in a timely deactivation process. A similar finding was noted in the two preceding financial audit reports.

Recommendation: The District should continue its efforts to ensure timely deactivation of network access privileges of former employees.

Finding No. 14: Information Technology – Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks, the evaluation of the likelihood of threats, and the severity of threat impact helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had informally considered external and internal risks identified through vendor-performed network vulnerability assessments in August 2014, the District had not developed a comprehensive, written IT risk assessment that considers, in addition to network vulnerability assessments, threats and vulnerabilities at the Districtwide, system, and application levels and documents the range of risks that the District's systems and data may be subject to, including those posed by internal and external users. In response to our inquiry, District management indicated they planned to have the vendor continue and complete an IT risk assessment in the 2015-16 fiscal year. The absence of a comprehensive, written IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. Similar findings were noted in the two preceding financial audit reports.

Recommendation: The District should develop a comprehensive, written IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 15: Information Technology – Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. In response to our inquiry, District management indicated that corrective action had been taken.

Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: The District should continue its efforts to improve IT security controls related to user authentication to ensure the confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Agriculture and Consumer Services
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1., provides, in part, that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. OMB Circular A-87, Attachment B, Section 8.h., provides, for charges to Federal awards for salaries and wages, that for employees expected to work on multiple cost activities or objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, the total activity for which each employee is compensated, and must be signed by the employee.

For the 2013-14 fiscal year, Child Nutrition Cluster (CNC) expenditures totaled $7,616,186.20, including $1,480,721.63 in salary and benefit expenditures. We performed tests of 40 expenditures, including salaries and benefits of 15 employees, to determine their propriety, and noted the following:

- For 22 non-food expenditures totaling $43,753.59, District records did not evidence that the Food Service Program Director or authorized designees approved invoices prior to payment to ensure the costs were allowable charges to the CNC.
- Four custodial employees, partially funded from CNC with salary and benefit expenditures totaling $17,135.96, did not maintain monthly PARs or equivalent documentation to evidence the actual time they devoted to the program.

We extended our audit procedures and determined that the expenditures discussed above were for CNC activities. Without effective procedures to document that services are appropriately received and authorized prior to payment, there is an increased risk of overpayments or that services are inconsistent with the grant terms. Absent the required monthly personnel activity reports evidencing actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance procedures to ensure that CNC services are appropriately authorized prior to payment, and required documentation is maintained to support salary and benefit charges to Federal Programs.

District Contact Person: Sandra Davis, Deputy Superintendent

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
2	CPA Firm, Finding No. 13-02	CPA Firm, Finding No. 12-04	NA
3	NA	NA	Audit Report No. 2012-157 Finding No. 7
5	NA	NA	Audit Report No. 2012-157 Finding No. 6
12	NA	NA	Audit Report No. 2012-157 Finding No. 8
13	CPA Firm, Finding No. 13-03	CPA Firm, Finding No. 12-06	NA
14	CPA Firm, Finding No. 13-04	CPA Firm, Finding No. 12-07	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

BAY COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2011-138 (1)	Federal Pell Grant (CFDA No. 84.063) - Activities Allowed or Unallowed, Cash Management, Reporting, and Special Test and Provisions	Controls over the Federal Pell Grant Program were inadequate, resulting in questioned costs of $167,375.	Partially Corrected.	The deficiency has been corrected. In December 2014, the grantor determined that the District is responsible to repay the question costs plus interest over 36 months beginning in January 2015.
2012-157 (1)	Federal Pell Grant (CFDA No. 84.063) - Cash Management, Reporting, and Special Test and Provisions	Controls over the Federal Pell Grant Program were inadequate, resulting in questioned costs of $45,109.	Partially Corrected.	The deficiency has been corrected. In December 2014, the grantor determined that the District is responsible to repay the question costs plus interest over 36 months beginning in January 2015.

EXHIBIT A
MANAGEMENT'S RESPONSE

WILLIAM V. HUSFELT III
SUPERINTENDENT

1311 Balboa Avenue
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Ryan Neves
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March 17, 2015

Mr. David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Pursuant to your letter of January 05, 2015 concerning Preliminary and Tentative Audit Findings resulting from your audit of the Bay County School Board for the fiscal year ending June 30, 2014, I am providing below my explanation concerning the findings and the actions we have taken to correct the deficiencies.

Journal Entries
The District has changed procedures to provide documented evidence of journal entry review and approvals.

Electronic Funds Transfers
Efforts will be made to ensure compliance with State Board of Education 6A-1.0012.Florida Administrative Code by including signatures on EFT agreements when allowed.

Food Service Collections
Procedures for the cashiers to have separate cash drawers have been reinforced. All cashiers now have their own user identification number to use on the point of sale terminal.

Purchasing Procedures
The District will review current procedures and consider recommended changes.

Construction Management Services – Contract Administration
A) For future construction management projects, during the contract administration phase of work, Facilities Staff will require the construction management entity (CME) to provide documentation of subcontractor's detailed invoices when the monthly pay application is submitted to the Architect. These dollar amounts will be tallied and confirmed by the Architect of Record. This data will then be submitted to Bay District Schools so that the District has an opportunity to verify the monthly amounts requested by subcontractors prior to approval of a monthly payment to the CME. The documentation and approvals will be filed with other related project records.
B) For future CME projects, the Office of Facilities for Bay District Schools will require documentation of subcontractor licenses prior to the initiation of CME construction. This requirement will provide verification that subcontractors working on District facilities meet the qualifications to perform the work for which they are engaged. This request shall include licensing requirements for specialty contracts such as electrical, air conditioning, plumbing and roofing contractors.

Design Professionals – Liability Services
The professional services agreement utilized by Bay District Schools contains minimum dollar amounts required for professional liability insurance, and also lists additional insurance required by design professionals. The Facilities Department will prepare a revision to Board Policy that states the minimum dollar amount of coverage that will be required by design professionals for professional liability insurance, per occurrence and annual aggregate, general liability minimum coverages, automobile liability minimum coverages, and if applicable, proof of worker's compensation coverage.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Health Insurance Plan – Participant Eligibility
The District is reviewing current procedures and considering changes to the verification requirements for dependents covered under the District's healthcare plan.

Virtual Instruction Program – Policies and Procedures
Bay Virtual School staff will develop a more detailed procedural manual which reiterates contractual obligations required by Florida Department of Education (FLDOE) approved virtual providers and addresses compliance with Florida statutory requirements

Virtual Instruction Program – Options
The District is currently consulting with FLDOE to determine which offerings actually constitute an option. The District has also added another option for students in the current year to ensure that three options are provided.

Virtual Instruction Program – Provider Contracts
Bay Virtual School staff will review VIP contracts to verify all required provisions are addressed. Providers have been notified of the additional required contract inclusions for the 2015-16 school year.

Virtual Instruction Program – Provider Background Screenings
The District will ensure that the required background screenings are performed for all VIP employees.

Information Technology – Access Privileges
Finding is correct in that the indicated access was removed. As for review of access privileges, the Management Information Systems (MIS) department requires schools and cost center managers to review every employee granted access on a quarterly basis. These reports are then returned to MIS and filed with the signature of managers.

Information Technology – Timely Deactivation of Access Privileges
Finding is correct and also indicated the District has implemented an automated system that now places the activation/deactivation under the direct control of Human Resources. Human Resources will ensure that access is timely deactivated.

Information Technology – Risk Assessment
The District contracts with a vendor to provide monthly reports of system vulnerability, potential breach points, and other items of interest. The District is in the process of collecting the various details that will comprise the written IT Risk Assessment document with the intention to complete the process in the 2015-16 school years.

Information Technology – Security Controls-User Authentication
District is continuing its efforts to improve IT security controls.

Federal Awards Finding No. 2014-001– Child Nutrition Cluster
Bay District Schools Food Service Director is currently signing all purchase orders and invoices for all food service expenditures. Personnel activity reports (PAR) will be monitored closely and will reflect distribution of the actual activity per employee.

Sincerely,



William V. Husfelt, III
District Superintendent