

GULF COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Robert D. Little, III	1
George M. Cox, Vice Chair from 11-20-12	2
Linda R. Wood, Vice Chair to 11-19-12, Chair from 11-20-12	3
Billy C. Quinn, Jr., Chair to 11-19-12	4
John W. Wright	5

Jim Norton, 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 Juan A. Fernandez, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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

**GULF COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Controls over negotiating and monitoring construction management entity (CME) general condition costs could be enhanced.

Finding No. 3: The District could enhance its construction administration procedures regarding selection of subcontractors.

Finding No. 4: The District could enhance its procedures to monitor verification of subcontractors' licensure status.

Finding No. 5: CME payment requests were not always reconciled to subcontractors' invoices, bids, and other related contracts prior to payment.

Finding No. 6: Controls over the review and approval of construction contract change orders could be improved.

Finding No. 7: Controls over facilities and maintenance activities could be enhanced.

Finding No. 8: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, 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.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2013-048.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 35 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based solely on the report 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

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 report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Gulf County District School Board as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Gulf County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA

Tallahassee, Florida

November 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

- The District's net position decreased by \$926,581.80 (5.6 percent). This change is attributable, in part, to the decrease in property tax revenues of \$1,374,791.65 due to decreases in the millage rate and assessed values.
- The General Fund (the primary operating fund) in the fund financial statements reflects expenditures and other financing uses that exceeded revenues and other financing sources by \$591,115.15. This may be compared to last fiscal year's results in which General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$404,044.56.
- General revenues in the government-wide statements account for \$16,658,443.86 of total revenues. Program specific revenues in the form of charges for services, grants, or contributions account for \$1,014,984.35 of total revenues.
- The District has \$18,600,010.01 in expenses, including \$1,014,984.35 that are offset by program specific charges for services, grants, or contributions. General revenues, primarily from ad valorem taxes and the Florida Education Finance Program, provided resources for the remaining programs.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, 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.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, pupil personnel services, school administration, facility services, pupil transportation services and food services.

Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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, and Capital Projects – Public Education Capital Outlay 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 Special Revenue – Federal Economic Stimulus Funds to demonstrate compliance with the budget.

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

The District uses private-purpose trust funds to account for scholarship funds established by private donors, and 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, 2013, compared to net position as of June 30, 2012:

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 1,817,589.92	\$ 4,051,018.17
Capital Assets	16,706,517.94	15,500,956.07
Total Assets	18,524,107.86	19,551,974.24
Long-Term Liabilities	2,697,475.98	2,799,212.81
Other Liabilities	146,430.55	145,978.30
Total Liabilities	2,843,906.53	2,945,191.11
Net Position:		
Net Investment in Capital Assets	16,286,517.94	15,030,956.07
Restricted	599,833.12	2,195,131.61
Unrestricted Deficit	(1,206,149.73)	(619,304.55)
Total Net Position	\$ 15,680,201.33	\$ 16,606,783.13

The largest portion of the District's net position reflects its 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 represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$1,071,326.25 (after exclusion of \$2,277,475.98 in compensated absences and other postemployment benefits) may be used to meet the District's ongoing obligations to students, employees, and creditors.

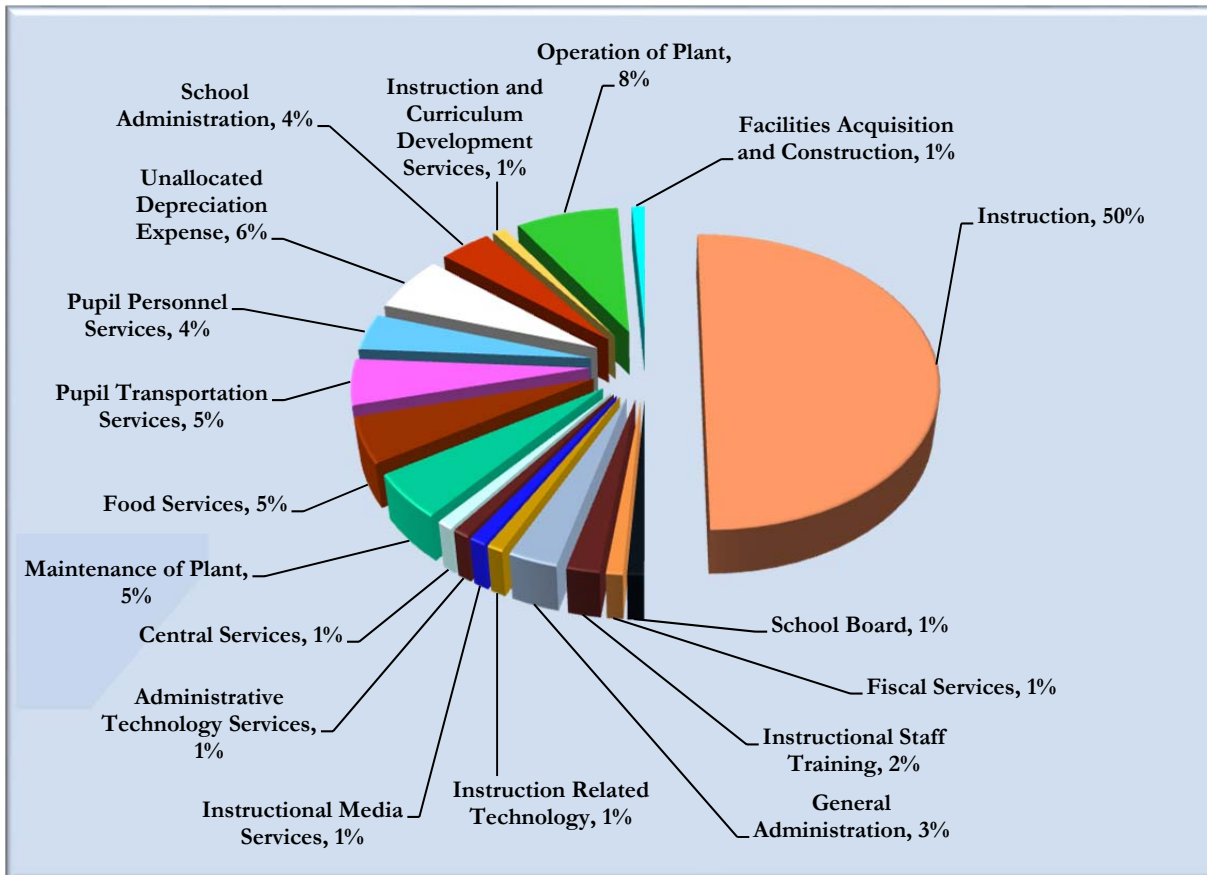
Current and Other Assets decreased approximately \$2.2 million primarily from spending on various renovation and remodeling projects, such as the lunchroom at Port St. Joe Elementary School and the physical education rooms at Port St. Joe High School. The increase in net investment in capital assets, and the decrease in restricted net position, are also attributable to the completion of these construction projects.

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

Operating Results for the Fiscal Year Ended			
	Governmental Activities		
	6-30-13	6-30-12	
Program Revenues:			
Charges for Services	\$ 410,977.80	\$ 424,675.01	
Operating Grants and Contributions	518,349.67	510,876.16	
Capital Grants and Contributions	85,656.88	85,369.24	
General Revenues:			
Property Taxes, Levied for Operational Purposes	8,984,990.01	10,300,453.03	
Property Taxes, Levied for Capital Projects	545,540.39	604,869.02	
Grants and Contributions Not Restricted to Specific Programs	6,514,829.82	5,671,441.78	
Unrestricted Investment Earnings	6,205.53	7,348.09	
Miscellaneous	606,878.11	695,477.77	
Total Revenues	17,673,428.21	18,300,510.10	
Functions/Program Expenses:			
Instruction	9,233,012.99	9,201,081.16	
Pupil Personnel Services	789,559.34	799,301.85	
Instructional Media Services	208,561.45	222,581.74	
Instruction and Curriculum Development Services	284,428.30	337,905.98	
Instructional Staff Training Services	423,693.41	441,792.49	
Instruction Related Technology	61,093.68	97,206.91	
School Board	162,472.76	158,200.95	
General Administration	607,166.97	585,482.80	
School Administration	756,919.59	798,299.39	
Facilities Acquisition and Construction	203,115.53	307,337.61	
Fiscal Services	267,454.48	259,194.23	
Food Services	983,382.26	919,017.09	
Central Services	83,496.21	86,525.23	
Pupil Transportation Services	917,056.22	1,044,476.28	
Operation of Plant	1,554,051.06	1,536,387.05	
Maintenance of Plant	923,715.63	801,195.79	
Administrative Technology Services	76,541.35	99,342.96	
Unallocated Interest on Long-Term Debt	35,119.75	30,809.13	
Unallocated Depreciation Expense	1,029,169.03	1,007,060.87	
Total Functions/Program Expenses	18,600,010.01	18,733,199.51	
Change in Net Position	(926,581.80)	(432,689.41)	
Net Position - Beginning	16,606,783.13	17,039,472.54	
Net Position - Ending	\$ 15,680,201.33	\$ 16,606,783.13	

Revenues from local sources for current operations are primarily received through property taxes. Property taxes levied for operational purposes decreased by \$1,315,463.02, primarily from decreases in local property values experienced in Gulf County and decreases in millage rates. The increase in grants and contributions not restricted to specific programs is related to increases in State revenues.

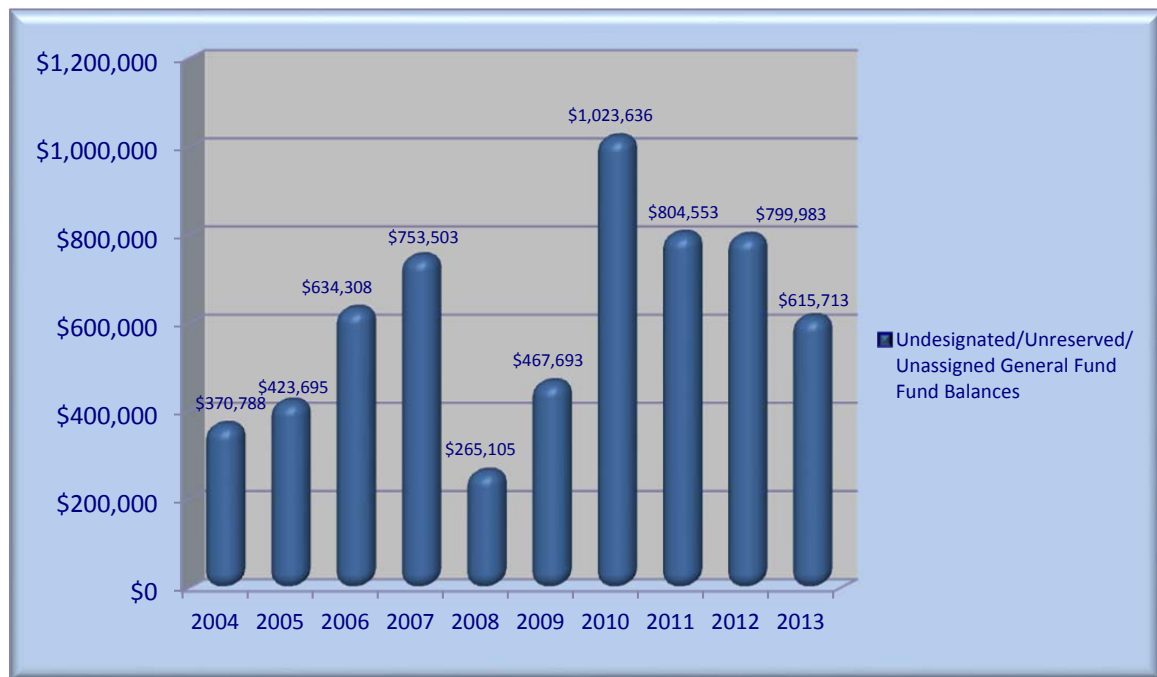
Instruction expenses represent 50 percent of total governmental expenses for the 2012-13 fiscal year. The following graph depicts the distribution of expenses of the District as a whole.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the fund balances of the District's major funds.

- **General Fund.** The Board has established a provision, in its strategic plan, to provide for an undesignated fund balance at fiscal year-end of 5 percent of Florida Education Finance Program funding. For comparison purposes, unassigned fund balance, implemented by Government Accounting Standards Board (GASB) Statement No. 54, is essentially equivalent to the unreserved, undesignated fund balance classification required before GASB Statement No. 54. The following graph shows the undesignated, unreserved/unassigned General Fund fund balances from the 2003-04 through 2012-13 fiscal years. The increase from the 2008-09 fiscal year to the 2009-10 fiscal year was due to the District levying a voted school tax for operating purposes of 1 mill, which was extended through the 2016-17 fiscal year. The decrease in the 2010-11 to 2012-13 fiscal years occurred from lower tax revenues and related assessed property values.



During the 2012-13 fiscal year, the General Fund total fund balance decreased \$591,115.15 to \$1,187,074.75. General Fund revenues totaled \$14,449,035.12, which was a decrease of \$746,629.26 from the prior fiscal year. The decrease in revenue is mainly due to the decrease in local property tax revenues as a result of declining assessed property values and millage rates. General Fund expenditures totaled \$15,243,438.44.

- ***Special Revenue – Federal Economic Stimulus Fund.*** The Special Revenue – Federal Economic Stimulus Fund has total revenue and expenditures of \$98,850.71 each. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.
- ***Capital Projects – Public Education Capital Outlay Fund.*** The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$207,922.09, at June 30, 2013. Resources in the fund were generated by the State Public Education Capital Outlay and Debt Service Fund and to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment. The fund balance decreased by \$854,900.61 due to the completion of various construction projects. The total fund balance has been restricted for the Gulf County Schools additions and renovations project.

GENERAL FUND BUDGETARY HIGHLIGHTS

All budget variances for the General Fund were considered normal budget fluctuations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

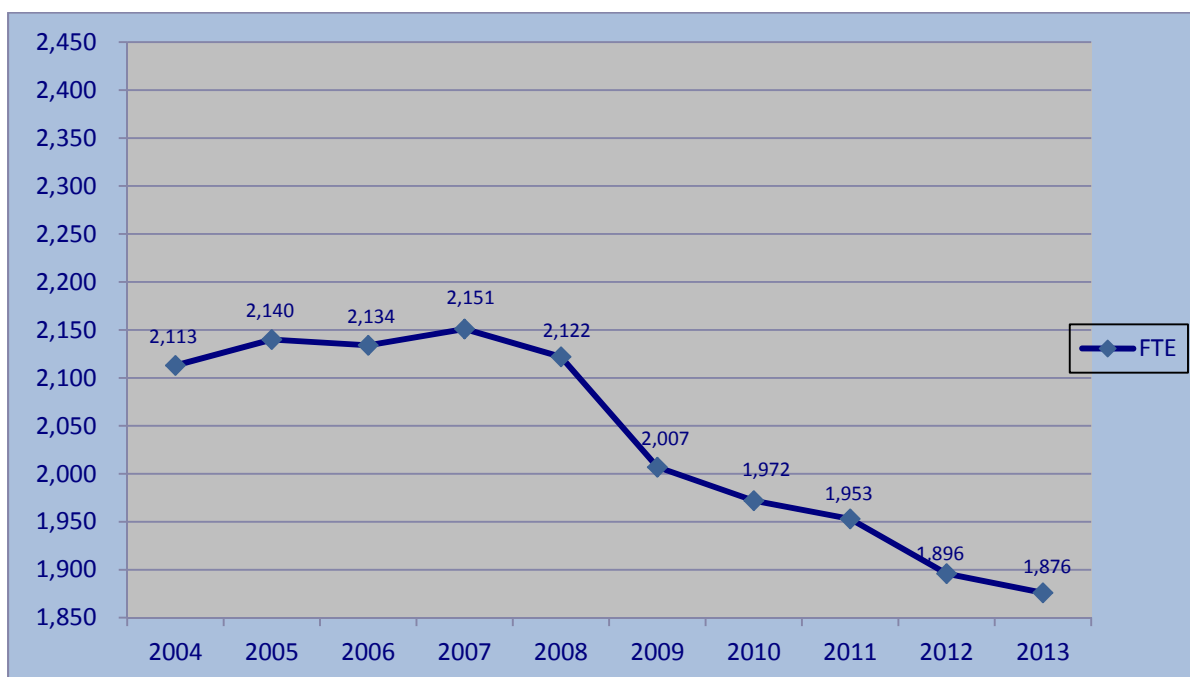
Major capital asset events during the current fiscal year included the completion of the lunchroom at Port St. Joe Elementary School, physical education rooms at Port St. Joe High School, and various roofing and miscellaneous projects. Additional information on the District's capital assets can be found in note II.C. to the financial statements.

Long-Term Debt

The District did not issue any new long-term debt during the 2012-13 fiscal year. At this time, there are no plans for issuing any new debt. Additional information on the District's long-term debt can be found in note II.H. to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding: Revenues from State sources comprise a significant source of total available resources of the District. Revenues from State sources for current operations are primarily from 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. As shown in the following chart, the District continued to experience a decline in FTE during the 2012-13 fiscal year.



REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Gulf County District School Boards finances and to demonstrate compliance and accountability for its resources. Questions concerning information provided in the MD&A, financial statements, and notes thereto, or requests for additional financial information should be addressed to the Director of Finance, Gulf County District School Board, 105 Middle School Road, Port St. Joe, FL 32456.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,657,644.62
Investments	16,325.99
Accounts Receivable	381.02
Due from Other Agencies	81,978.37
Inventories	61,259.92
Capital Assets:	
Nondepreciable Capital Assets	634,228.47
Depreciable Capital Assets, Net	<u>16,072,289.47</u>
TOTAL ASSETS	<u>18,524,107.86</u>
LIABILITIES	
Salaries and Benefits Payable	86,439.50
Payroll Deductions and Withholdings	57,471.37
Accounts Payable	519.68
Due to Other Agencies	2,000.00
Long-Term Liabilities:	
Portion Due Within One Year	125,202.00
Portion Due After One Year	<u>2,572,273.98</u>
TOTAL LIABILITIES	<u>2,843,906.53</u>
NET POSITION	
Net Investment in Capital Assets	16,286,517.94
Restricted for:	
State Required Carryover Programs	115,748.50
Debt Service	13,650.97
Capital Projects	445,713.17
Food Service	24,720.48
Unrestricted	<u>(1,206,149.73)</u>
TOTAL NET POSITION	<u><u>\$ 15,680,201.33</u></u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 9,233,012.99	\$ 41,419.80		\$	\$ (9,191,593.19)
Pupil Personnel Services	789,559.34				(789,559.34)
Instructional Media Services	208,561.45				(208,561.45)
Instruction and Curriculum Development Services	284,428.30				(284,428.30)
Instructional Staff Training Services	423,693.41				(423,693.41)
Instruction Related Technology	61,093.68				(61,093.68)
School Board	162,472.76				(162,472.76)
General Administration	607,166.97				(607,166.97)
School Administration	756,919.59				(756,919.59)
Facilities Acquisition and Construction	203,115.53			13,261.42	(189,854.11)
Fiscal Services	267,454.48				(267,454.48)
Food Services	983,382.26	358,017.13	518,349.67		(107,015.46)
Central Services	83,496.21				(83,496.21)
Pupil Transportation Services	917,056.22	11,540.87			(905,515.35)
Operation of Plant	1,554,051.06				(1,554,051.06)
Maintenance of Plant	923,715.63				(923,715.63)
Administrative Technology Services	76,541.35				(76,541.35)
Unallocated Interest on Long-Term Debt	35,119.75			72,395.46	37,275.71
Unallocated Depreciation Expense*	1,029,169.03				(1,029,169.03)
Total Governmental Activities	\$ 18,600,010.01	\$ 410,977.80	\$ 518,349.67	\$ 85,656.88	(17,585,025.66)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					8,984,990.01
Property Taxes, Levied for Capital Projects					545,540.39
Grants and Contributions Not Restricted to Specific Programs					6,514,829.82
Unrestricted Investment Earnings					6,205.53
Miscellaneous					606,878.11
Total General Revenues					16,658,443.86
Change in Net Position					(926,581.80)
Net Position - Beginning					16,606,783.13
Net Position - Ending					\$ 15,680,201.33

* 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.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 1,209,798.74	\$	\$ 207,922.09
Investments	1,778.86		
Accounts Receivable	90.00		
Due from Other Agencies	78,960.12		
Inventories	40,873.81		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 1,331,501.53</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 207,922.09</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 86,439.50	\$	\$
Payroll Deductions and Withholdings	57,471.37		
Accounts Payable	515.91		
Due to Other Agencies			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>144,426.78</u>		
Fund Balances:			
Nonspendable:			
Inventories	40,873.81		
Other Not in Spendable Form	1,778.86		
Total Nonspendable Fund Balance	<u>42,652.67</u>	<u> </u>	<u> </u>
Restricted for:			
State Required Carryover Programs	115,748.50		
Debt Service			
Capital Projects			207,922.09
Food Service			
Total Restricted Fund Balance	<u>115,748.50</u>	<u> </u>	<u>207,922.09</u>
Assigned for Budget Shortfall	412,961.04		
Unassigned Fund Balance	<u>615,712.54</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,187,074.75</u>	<u> </u>	<u>207,922.09</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,331,501.53</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 207,922.09</u></u>

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

Other Governmental Funds	Total Governmental Funds
\$ 239,923.79	\$ 1,657,644.62
14,547.13	16,325.99
291.02	381.02
3,018.25	81,978.37
20,386.11	61,259.92
<u>\$ 278,166.30</u>	<u>\$ 1,817,589.92</u>
\$	\$ 86,439.50
	57,471.37
3.77	519.68
2,000.00	2,000.00
<u>2,003.77</u>	<u>146,430.55</u>
20,386.11	61,259.92
896.16	2,675.02
<u>21,282.27</u>	<u>63,934.94</u>
	115,748.50
13,650.97	13,650.97
237,313.26	445,235.35
3,916.03	3,916.03
<u>254,880.26</u>	<u>578,550.85</u>
	412,961.04
	<u>615,712.54</u>
<u>276,162.53</u>	<u>1,671,159.37</u>
<u>\$ 278,166.30</u>	<u>\$ 1,817,589.92</u>

**GULF COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances - Governmental Funds	\$ 1,671,159.37
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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.	16,706,517.94
--	---------------

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:

Bonds Payable	\$ 420,000.00	
Compensated Absences Payable	1,457,603.98	
Other Postemployment Benefits Payable	819,872.00	(2,697,475.98)

Net Position - Governmental Activities	\$ 15,680,201.33
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 61,335.87	\$	\$
Federal Through State and Local State	57,977.91 5,106,327.88	98,850.71	
Local:			
Property Taxes	8,984,990.01		
Charges for Services - Food Service			
Miscellaneous	238,403.45		32.37
Total Local Revenues	<u>9,223,393.46</u>		<u>32.37</u>
Total Revenues	<u>14,449,035.12</u>	<u>98,850.71</u>	<u>32.37</u>
Expenditures			
Current - Education:			
Instruction	8,492,767.93	20,084.00	
Pupil Personnel Services	627,511.77		
Instructional Media Services	206,000.32		
Instruction and Curriculum Development Services	155,102.96	6,149.85	
Instructional Staff Training Services	257,270.78	20,229.37	
Instruction Related Technology	36,018.76	24,600.00	
School Board	162,472.76		
General Administration	582,961.25		
School Administration	813,027.34		
Facilities Acquisition and Construction			70,215.51
Fiscal Services	264,060.01		
Food Services			
Central Services	68,466.65	14,500.00	
Pupil Transportation Services	844,831.50		
Operation of Plant	1,565,684.52		
Maintenance of Plant	916,950.66		
Administrative Technology Services	75,755.84		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			784,717.47
Other Capital Outlay	165,821.01	13,287.49	
Debt Service:			
Principal			
Interest and Fiscal Charges	<u>8,734.38</u>		
Total Expenditures	<u>15,243,438.44</u>	<u>98,850.71</u>	<u>854,932.98</u>
Deficiency of Revenues Over Expenditures	<u>(794,403.32)</u>		<u>(854,900.61)</u>
Other Financing Sources (Uses)			
Transfers In	284,958.68		
Insurance Loss Recoveries	8,329.49		
Transfers Out	<u>(90,000.00)</u>		
Total Other Financing Sources (Uses)	<u>203,288.17</u>		
Net Change in Fund Balances	(591,115.15)		(854,900.61)
Fund Balances, Beginning	<u>1,778,189.90</u>		<u>1,062,822.70</u>
Fund Balances, Ending	<u>\$ 1,187,074.75</u>	<u>\$ 0.00</u>	<u>\$ 207,922.09</u>

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

Other Governmental Funds	Total Governmental Funds
\$	\$
	61,335.87
1,699,403.24	1,856,231.86
95,270.88	5,201,598.76
545,540.39	9,530,530.40
358,017.13	358,017.13
1,948.88	240,384.70
905,506.40	10,128,932.23
2,700,180.52	17,248,098.72
728,115.11	9,240,967.04
154,664.52	782,176.29
	206,000.32
134,715.36	295,968.17
142,980.61	420,480.76
	60,618.76
	162,472.76
20,024.35	602,985.60
	813,027.34
132,900.02	203,115.53
	264,060.01
983,382.26	983,382.26
	82,966.65
9,780.00	854,611.50
	1,565,684.52
	916,950.66
	75,755.84
737,481.25	1,522,198.72
172,657.73	351,766.23
50,000.00	50,000.00
26,385.37	35,119.75
3,293,086.58	19,490,308.71
(592,906.06)	(2,242,209.99)
90,000.00	374,958.68
	8,329.49
(284,958.68)	(374,958.68)
(194,958.68)	8,329.49
(787,864.74)	(2,233,880.50)
1,064,027.27	3,905,039.87
\$ 276,162.53	\$ 1,671,159.37

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

Net Change in Fund Balances - Governmental Funds \$ (2,233,880.50)

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 capital outlays in excess of depreciation expense in the current fiscal year. 1,205,561.87

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayments in the current fiscal year. 50,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the 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. 132,528.83

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. (80,792.00)

Change in Net Position - Governmental Activities \$ (926,581.80)

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2013**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 81,140.19	\$ 196,282.37
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable		\$ 196,282.37
		<u> </u>
NET POSITION		
Assets Held in Trust for Scholarships and Other Purposes	81,140.19	
	<u> </u>	
TOTAL LIABILITIES AND NET POSITION	\$ 81,140.19	
	<u> </u>	

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Contributions:	
Gifts	\$ 400.00
Investment Earnings:	
Interest	<u> 277.29</u>
Total Additions	<u> 677.29</u>
DEDUCTIONS	
Other Expenses	<u> 4,500.00</u>
Change in Net Position	(3,822.71)
Net Position - Beginning	<u> 84,962.90</u>
Net Position - Ending	<u><u> \$ 81,140.19</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

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

B. Reporting Entity

The Gulf 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 Gulf County School District (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 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 Gulf 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 these criteria, no component units are included within the District's reporting entity.

C. Basis of Presentation: Government-wide Financial Statements

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

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

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

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental 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).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Capital Outlay and Debt Service Fund to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the George G. Tapper Scholarship Fund, Herman R. Dean Scholarship Fund, Marilyn Witten Scholarship Fund, James Lamar Faison Scholarship Fund, Marion “Coach” Craig Memorial Scholarship Fund, and the Paul and Marlene Sewell Scholarship Fund.
- 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 year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated.

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.

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

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, 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 private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include certificates of deposit and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus

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

Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. 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.

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

Investments made locally consist of certificates of deposit which are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. 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. Land and some buildings acquired or constructed prior to July 1, 1984, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, all of the stated land values and \$1,584,793 of stated building values are based on these estimates.

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

Buildings and fixed equipment are depreciated using the straight-line method; with all other assets being depreciated using the composite method, over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

5. Long-Term Liabilities

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

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of 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.

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

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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 has, by approval of the annual financial report, authorized the assignment of fund balance. 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 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 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

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

allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

3. District Property Taxes

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

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

The Board adopted the 2012 tax levy on September 11, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Gulf 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. 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

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JUNE 30, 2013**

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.

5. 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.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

B. Investments

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

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	40 Day Average	\$ 1,212,940.37
Fund B	3.98 Year Average	2,675.02
Debt Service Accounts	6 Months	13,650.97
Certificates of Deposit (1)	May 2014 to June 2014	79,587.82
Total Investments		<u>\$ 1,308,854.18</u>

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

➤ **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case

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JUNE 30, 2013**

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

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (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 bids from qualified depositories, as defined in Section 280.02, Florida Statutes; certificates of deposit; time deposits; securities of the United States Government; State managed cooperative investment plans; and other forms of investments as authorized by Section 218.415, Florida Statutes.

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

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

The District's investments in certificates of deposit are in qualified public depositories.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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	\$ 93,006.47	\$ 417,000.00	\$	\$ 510,006.47
Land Improvements	124,222.00			124,222.00
Construction in Progress	108,700.00		108,700.00	
Total Capital Assets Not Being Depreciated	325,928.47	417,000.00	108,700.00	634,228.47
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,171,684.62	59,348.25		1,231,032.87
Buildings and Fixed Equipment	21,163,129.55	1,648,755.58		22,811,885.13
Furniture, Fixtures, and Equipment	4,016,016.11	261,146.84	144,218.36	4,132,944.59
Motor Vehicles	2,107,290.21	13,414.28	18,377.00	2,102,327.49
Audio Visual Materials and Computer Software	449,739.40			449,739.40
Total Capital Assets Being Depreciated	28,907,859.89	1,982,664.95	162,595.36	30,727,929.48
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	510,626.29	28,425.51		539,051.80
Buildings and Fixed Equipment	10,089,740.51	670,061.53		10,759,802.04
Furniture, Fixtures, and Equipment	1,026,495.70	323,167.16	144,218.36	1,205,444.50
Motor Vehicles	1,693,804.52	56,234.05	18,377.00	1,731,661.57
Audio Visual Materials and Computer Software	412,165.27	7,514.83		419,680.10
Total Accumulated Depreciation	13,732,832.29	1,085,403.08	162,595.36	14,655,640.01
Total Capital Assets Being Depreciated, Net	15,175,027.60	897,261.87		16,072,289.47
Governmental Activities Capital Assets, Net	\$ 15,500,956.07	\$ 1,314,261.87	\$ 108,700.00	\$ 16,706,517.94

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 56,234.05
Unallocated	1,029,169.03
Total Depreciation Expense - Governmental Activities	\$ 1,085,403.08

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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 Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, 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, 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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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal year ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$1,137,775.70, \$692,668.95, and \$717,303.17, respectively, which were equal to the required contributions for each fiscal year.

There were 28 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$87,856.99 which was equal to the required contribution for the 2012-13 fiscal year.

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

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 2012-13 fiscal year, 120 retirees received other postemployment benefits. The District provided required contributions of \$142,807 toward the annual OPEB cost, net of retiree contributions totaling \$219,061, which represents 2.9 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 20 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 88,589
Amortization of Unfunded Actuarial Accrued Liability	<u>150,941</u>
Annual Required Contribution	239,530
Interest on Net OPEB Obligation	25,129
Adjustment to Annual Required Contribution	<u>(41,060)</u>
Annual OPEB Cost (Expense)	223,599
Contribution Toward the OPEB Cost	<u>(142,807)</u>
Increase in Net OPEB Obligation	80,792
Net OPEB Obligation, Beginning of Year	<u>739,080</u>
Net OPEB Obligation, End of Year	<u><u>\$ 819,872</u></u>

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 222,993	46.15%	\$ 613,350
2011-12	231,023	45.58%	739,080
2012-13	223,599	63.87%	819,872

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$2,671,884, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,671,884 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$7,549,515, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 35.39 percent.

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

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

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.4 percent per year, projected salary increases of 4.0 to 8.375 percent, and an annual healthcare cost trend rate of 8.0 percent beginning January 2013 plan year, reduced to an ultimate rate of 5.45 percent beginning January 2020. The investment rate of return and projected salary increase rate include a general

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

price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20 year period. The remaining amortization period at June 30, 2013, was 17 years.

F. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Gulf County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, equipment breakdown, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance.

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

G. Changes in Short-Term Debt

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 2,500,000	\$ 2,500,000	\$ 0

Proceeds from the tax anticipation note were used as working capital reserves in the General Fund as permitted under State and Federal tax laws.

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

H. Long-Term Liabilities**1. Bonds Payable**

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 420,000	5.0	2020

These bonds are issued by the State Board of Education to finance capital outlay projects 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 State Board of Education and the State Board of Administration.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 71,000	\$ 50,000	\$ 21,000
2015	73,500	55,000	18,500
2016	70,750	55,000	15,750
2017	73,000	60,000	13,000
2018	75,000	65,000	10,000
2019-2020	145,250	135,000	10,250
Total State School Bonds	<u>\$ 508,500</u>	<u>\$ 420,000</u>	<u>\$ 88,500</u>

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

2. 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					
Bonds Payable	\$ 470,000.00	\$	\$ 50,000.00	\$ 420,000.00	\$ 50,000.00
Compensated Absences Payable	1,590,132.81	75,098.70	207,627.53	1,457,603.98	75,202.00
Other Postemployment Benefits Payable	739,080.00	223,599.00	142,807.00	819,872.00	
Total Governmental Activities	<u>\$ 2,799,212.81</u>	<u>\$ 298,697.70</u>	<u>\$ 400,434.53</u>	<u>\$ 2,697,475.98</u>	<u>\$ 125,202.00</u>

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

I. Fund Balance Reporting

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

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

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

J. Revenues and Expenditures/Expenses**1. Schedule of State Revenue Sources**

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 2,422,056.00
Categorical Educational Program - Class Size Reduction	1,981,718.00
Workforce Development Program	143,706.00
Voluntary Prekindergarten Program	122,755.87
School Recognition Program	98,138.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	86,944.87
Adults with Disabilities	42,260.89
Food Service Supplement	8,924.00
Miscellaneous	295,095.13
Total	<u><u>\$ 5,201,598.76</u></u>

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

2. Property Taxes

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.827	\$ 6,782,688
Prior Period Funding Adjustment	0.011	15,457
Basic Discretionary Local Effort	0.748	1,051,057
Voted School Tax:		
Additional Operating	1.000	1,405,156
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.400	562,062
Total	<u><u>6.986</u></u>	<u><u>\$ 9,816,420</u></u>

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

K. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 284,958.68	\$ 90,000.00
Nonmajor Governmental	90,000.00	284,958.68
Total	<u>\$ 374,958.68</u>	<u>\$ 374,958.68</u>

Transfers to the General Fund were to purchase school equipment, refund maintenance expenditures, and to pay for property casualty insurance. Transfers to the nonmajor governmental funds were provided to supplement food service operations.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 50,000.00	\$ 58,000.00	\$ 61,335.87	\$ 3,335.87
Federal Through State and Local	25,000.00	48,500.00	57,188.91	8,688.91
State	5,212,044.00	5,082,166.38	5,106,327.88	24,161.50
Local:				
Property Taxes	8,890,528.00	9,056,429.00	8,984,990.01	(71,438.99)
Miscellaneous	417,126.88	244,626.88	239,192.45	(5,434.43)
Total Local Revenues	9,307,654.88	9,301,055.88	9,224,182.46	(76,873.42)
Total Revenues	14,594,698.88	14,489,722.26	14,449,035.12	(40,687.14)
Expenditures				
Current - Education:				
Instruction	8,894,511.79	8,799,379.94	8,492,767.93	306,612.01
Pupil Personnel Services	647,931.00	634,029.00	627,511.77	6,517.23
Instructional Media Services	204,840.00	208,469.00	206,000.32	2,468.68
Instruction and Curriculum Development Services	154,105.00	157,845.00	155,102.96	2,742.04
Instructional Staff Training Services	246,511.00	261,003.00	257,270.78	3,732.22
Instruction Related Technology	36,740.00	37,134.38	36,018.76	1,115.62
School Board	168,643.00	164,943.00	162,472.76	2,470.24
General Administration	615,947.00	587,907.00	582,961.25	4,945.75
School Administration	802,073.00	830,964.55	813,027.34	17,937.21
Fiscal Services	259,938.00	265,119.00	264,060.01	1,058.99
Central Services	75,755.00	68,624.00	68,466.65	157.35
Pupil Transportation Services	953,594.00	860,619.00	844,831.50	15,787.50
Operation of Plant	1,693,301.00	1,594,171.00	1,565,684.52	28,486.48
Maintenance of Plant	960,282.00	937,782.78	916,950.66	20,832.12
Administrative Technology Services	76,167.00	78,645.00	75,755.84	2,889.16
Fixed Capital Outlay:				
Other Capital Outlay		165,821.01	165,821.01	
Debt Service:				
Interest and Fiscal Charges	7,500.00	8,735.00	8,734.38	0.62
Total Expenditures	15,797,838.79	15,661,191.66	15,243,438.44	417,753.22
Deficiency of Revenues Over Expenditures	(1,203,139.91)	(1,171,469.40)	(794,403.32)	377,066.08
Other Financing Sources (Uses)				
Transfers In	317,642.27	317,642.27	284,958.68	(32,683.59)
Insurance Loss Recoveries		8,329.49	8,329.49	
Transfers Out	(50,000.00)	(90,000.00)	(90,000.00)	
Total Other Financing Sources	267,642.27	235,971.76	203,288.17	(32,683.59)
Net Change in Fund Balances	(935,497.64)	(935,497.64)	(591,115.15)	344,382.49
Fund Balances, Beginning	1,778,189.90	1,778,189.90	1,778,189.90	
Fund Balances, Ending	\$ 842,692.26	\$ 842,692.26	\$ 1,187,074.75	\$ 344,382.49

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 125,571.49	\$ 131,571.49	\$ 98,850.71	\$ (32,720.78)
125,571.49	131,571.49	98,850.71	(32,720.78)
20,084.00	20,084.00	20,084.00	
26,000.00	26,000.00	6,149.85	19,850.15
27,100.00	33,100.00	20,229.37	12,870.63
24,600.00	24,600.00	24,600.00	
14,500.00	14,500.00	14,500.00	
13,287.49	13,287.49	13,287.49	
125,571.49	131,571.49	98,850.71	32,720.78
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 5,640,386	\$ 5,640,386	0%	\$ 8,958,328	62.96%
October 1, 2010	0	2,761,798	2,761,798	0%	7,994,744	34.55%
October 1, 2012	0	2,671,884	2,671,884	0%	7,549,515	35.39%

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

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

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education 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 State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	\$ 111,310.65
National School Lunch Program	10.555 (2)(A)	300, 350	397,036.05
Total United States Department of Agriculture			508,346.70
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (3)	263	394,912.07
Special Education - Preschool Grants	84.173	267	18,795.00
Putnam County District School Board:			
Special Education - Grants to States	84.027 (3)	None	789.00
Total Special Education Cluster			414,496.07
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	46,598.88
Title I Grants to Local Educational Agencies	84.010	212, 226, 228	472,820.96
Career and Technical Education - Basic Grants to States	84.048	161	57,739.12
Twenty-First Century Community Learning Centers	84.287	244	70,418.47
Rural Education	84.358	110	31,248.58
Improving Teacher Quality State Grants	84.367	224	98,523.46
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (4)	RL111, RD211, RG311	98,850.71
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (2)(B)(4)	None	13,186.03
Total United States Department of Education			1,303,882.28
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	61,335.87
Total Expenditures of Federal Awards			\$ 1,873,564.85

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:

(A) National School Lunch Program - Includes \$21,796.02 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act - Includes \$11,265.74 of equipment received during the fiscal year.

(3) Special Education. Total CFDA No. 84.027 expenditures: \$395,701.07.

(4) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: \$112,036.74.



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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, each major fund, and the aggregate remaining fund information of the Gulf County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2013, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, as described in our report on the Gulf County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a

reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as 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
November 19, 2013



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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
November 19, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553 and 10.555	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster
84.395	State Fiscal Stabilization Fund (SFSE) - Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)(4).b., Florida Statutes, provides that for instructional personnel, the Board must provide for differentiated pay based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2012-039 and 2013-048.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

CONSTRUCTION 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 both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which 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 in support of payment requests.

In May 2012, the Board entered into a contract with a CME and, in June 2012, the contract was amended to establish a GMP with the CME for additions and renovations at two schools. During the 2012-13 fiscal year, the District made

payments totaling \$1,301,592 to the CME for the contracted services. Our review disclosed that the District's construction contract administration procedures could be improved, as discussed in Finding Nos. 2 through 6.

Finding No. 2: Construction Contract - General Conditions Costs

The contract with the CME included a provision for lump sum general conditions costs of \$220,000, which was billed to the District as a percentage of completion as the project progressed. General conditions were to include all overhead costs and included such items as travel costs, direct and indirect salary costs, permitting costs, bonds, and insurance. Our review of general conditions costs disclosed the following:

- The District had not established written policies and procedures addressing the methodology to be applied and factors to be considered during the negotiation process for general conditions costs. Such procedures should include comparing costs to general conditions for similar projects or projects of other school districts, and negotiating a reasonable amount for a total budgeted figure for all general conditions costs. Although requested, we were not provided documentation of the methodology applied and factors considered during the negotiation process for general conditions costs. Absent such documentation, District records did not evidence the District's determination that the general conditions costs were reasonable and appropriate.
- Since the charges for general conditions were billed based on a percent of the total, the payment requests did not include detailed documentation such as payroll records and paid invoices to support amounts charged. Absent adequate monitoring of charges to general conditions costs, the District may be limited in its ability to determine the propriety of the payment requests or to recover cost savings associated with the project, should they occur.

Effectively negotiating and documenting the reasonableness of general conditions costs are essential to ensuring that potential cost savings are realized under GMP contracts.

Recommendation: The District should establish written policies and procedures addressing negotiation and monitoring of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating such costs.

Finding No. 3: Construction Contract - Subcontractor Selection

After the District selected the CME through the competitive selection process, the CME requested bids for certain subcontracted services, such as plumbing, heating, ventilation, and air-conditioning, and electrical work, prior to presenting the GMP based on the scope of the project determined by the District's architect. While the CME and a representative of the architect initially obtained bids for the selection of subcontractors, District personnel indicated that the bids were rejected because the bids were too high. As a result, the CME, in consultation with the architect and the District, reduced the scope of the project, and presented a GMP based on the CME's estimated cost. The CME did not solicit further bids for subcontractors based on the revised scope, but obtained a list of local subcontractors from the District, and requested quotes or entered into direct negotiations with those subcontractors. For example, although the initial low bid for electrical work was \$432,341, the CME entered into direct negotiations with the low bidder and awarded a contract of \$274,361, which exceeded the original GMP estimate by \$14,281.

While directly negotiating with subcontractors may result in District cost savings, competitive solicitation of subcontractor services, including attendance of District personnel at subcontractor bid openings, would provide the District additional assurance that subcontractors services were obtained at the lowest cost consistent with acceptable quality and that the District realized maximum cost savings.

Recommendation: The District should enhance its procedures to ensure that subcontractors are competitively selected and District personnel monitor the subcontractor selection process.

Finding No. 4: Construction Contract - Verification of Subcontractor Licensure Status

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 did not verify subcontractor licenses but relied on the CME to verify this information; however, District verification of subcontractor licenses provides additional assurance that subcontractors working on District facilities meet the qualifications to perform the work for which they are engaged. At our request, District personnel obtained and we confirmed subcontractor licenses from the CME for selected subcontractors; however, our procedures do not substitute for the District's responsibility to monitor construction activities.

Recommendation: The District should enhance its procedures to monitor verification of subcontractors' licensure status prior to commencement of work on projects.

Finding No. 5: Construction Contract - Monitoring Payment Requests

District personnel indicated that upon receipt of payment requests from the CME, District personnel compare line items on the schedule of values to documentation provided, verify mathematical accuracy of the request, and verify prior payments were properly accumulated on payment requests. 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' invoices, bids, and other related contracts. Without procedures to document the reconciliation of each line in the schedule of values for each payment request to supporting documentation, there is an increased risk that the District may overpay for subcontractor services or may not realize potential cost savings.

Our tests of District records supporting payments made for items totaling \$480,306 from the schedule of values on ten CME pay requests disclosed that for 6 of the 24 items tested the payment was not supported by subcontractor invoices, bids, or contracts on file at the District. Subsequent to our inquiries, the CME provided additional information supporting the items selected for testing, such as subcontractor invoices, bids, and contract documents. Without adequate controls to monitor construction payments, there is an increased risk that the District may overpay for services or not achieve cost savings provided by the contract.

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, bids, and contract documents, before CME payments are made.

Finding No. 6: Construction Contract - Change Orders

Section 1013.48, Florida Statutes, allows the Board, at its option and by written policy duly adopted and entered in its official minutes, to authorize the Superintendent or other designated individual to approve change orders in the name of the Board for preestablished amounts. Approvals must be for expediting work in progress and reported to the Board and entered into the official minutes. Board Policy 8.512 – *Change Orders* provides that the Superintendent, or in his absence, the Superintendent's designee is authorized to approve construction contract change orders that will

not increase the construction contract amount by more than \$6,000. The Board must be provided copies of approved change orders at its first regular or special Board meeting following the change order approval date.

During the course of the project, the CME, in consultation with the architect and District personnel, made changes to the scope of the project, made revisions to the individual line items on the schedule of values, and the District made direct purchases for the project, which reduced the total amount due to the CME. For each payment request, the CME identified a cumulative total of the direct purchase amounts and other changes that were pending Board approval of the related change orders. Our review disclosed several change orders related to these pending items that the Board did not timely approve. For example, the Board-approved GMP included electrical work of \$260,080, and the CME subsequently subcontracted the work for \$274,361, or \$14,281 more than the original GMP-contracted electrical costs. Further changes to the scope of the electrical work from September 2012 to March 2013 increased the cost to \$315,393, or \$55,313 more than the original GMP-contracted electrical costs, and the Board did not approve the related change orders at its first regular or special Board meeting following the GMP changes. On June 11, 2013, the Board ultimately approved the project changes at the end of the project, and approved construction changes for a net decrease of \$225,408 to the GMP for direct purchases and other changes. However, without timely Board approval of change orders and related changes to the scope of construction projects, the risk increases that revisions to construction projects may not be consistent with Board intent or that overpayments may occur.

Recommendation: The District should enhance its procedures to ensure timely Board approval of change orders.

Finding No. 7: Facilities Management

The assistant superintendent for business is responsible for managing outsourced construction and renovation projects and ensuring facilities are safe and suitable for their intended use. The maintenance department personnel perform heating, ventilating, and air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the maintenance department employed nine employees and the department's operating cost was \$1.5 million. Also, during the fiscal year, the District had expenditures totaling \$1.5 million for renovation projects. While construction and renovation projects periodically change based on funding, the District's Five-Year Facilities Work Plan, as approved by the Board on October 8, 2013, disclosed that the District planned to spend an additional \$132,056 on construction and renovation projects for the 2013-14 fiscal year, and no similar expenditures were planned over the next four fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities was \$24 million and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 38 years.

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

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional bid-build methods and construction manager at risk methods. In addition, maintenance-related jobs, such as plumbing, electrical and HVAC repairs, are routinely performed by maintenance department personnel based on safety and suitability priorities, although some jobs are outsourced to contractors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction project or significant maintenance-related job, which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The maintenance department has established short-term and long-term goals; however, these goals did not address accountability for the department. For example, the department goals included addressing issues that arise day-to-day and performing routine maintenance throughout the District, and operating and maintaining buildings in a clean and safe learning environment. However, these goals did not sufficiently address cost-effectiveness or efficiency outcomes. The maintenance department had established procedures such as enhanced use of software to track work order open and close dates. While this software identifies and accumulates work order costs, it does not correlate to maintenance inventory levels and work orders are not routinely used to measure or improve performance.

To adequately establish outcome measures, the maintenance department could set goals such as completing significant maintenance-related jobs that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a job did not initially meet building code requirements, and to compare job costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine jobs, and progress toward meeting the goals could be measured by comparing job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its maintenance department is operating as cost-effectively and efficiently as possible.

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

Finding No. 8: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. These procedures also required instructional contact hours in labs to be scheduled within the reasonable attendance hours.

For the 2012-13 fiscal year, the District reported to the FDOE 33,710 instructional contact hours for 94 students enrolled in 309 adult general education classes. Our review of 4,386 hours reported for 25 students enrolled in 84 adult general education classes disclosed contact hours were over-reported by a net of 334 hours for 7 students in 31 classes, as follows:

- One former student enrolled in two classes, did not attend the classes, and because of an enrollment recording error, 140 hours were over-reported.
- For two students enrolled in 20 classes, the District scheduled excessive lab hours resulting in 166 over-reported hours.
- For three students enrolled in seven classes, data entry errors such as inputting incorrect enrollment dates resulted in 74 hours being under-reported.
- For one student enrolled in two classes, errors in transmitting data to the FDOE resulted in 102 hours being over-reported.

Also, during testing, it came to our attention that the District did not report adult general education hours for 33 students enrolled in 50 classes during the summer of 2012 because of errors in transmitting data to the FDOE, resulting in 7,128 under-reported hours. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our report Nos. 2012-039 and 2013-048.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB Circular A-133, Section 510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2013-048. The following table provides information on District recurring audit findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2013-048, Finding No. 1	Audit Report No. 2012-039, Finding No. 2
8	Audit Report No. 2013-048, Finding No. 4	Audit Report No. 2012-039, Finding No. 3

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

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2013-048		There were no prior Federal audit findings.		

**EXHIBIT A
MANAGEMENT'S RESPONSE**



JIM NORTON, SUPERINTENDENT

150 MIDDLE SCHOOL ROAD • PORT ST. JOE, FLORIDA 32456 • PHONE: (850) 229-8256 or (850) 639-2871 • FAX (850) 229-6089

November 19, 2013

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

Dear Mr. Martin:

Please find below responses to the Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2013, for the Gulf County District School Board.

Finding #1

Response: The School Board is negotiating a differentiated pay plan for the District and compensation will be based on performance consistent with Florida Statute requirements.

Finding #2

Response: The District will enhance its controls over negotiating and monitoring construction management entity (CME) general condition costs.

Finding #3

Response: The District will enhance its procedures to ensure that subcontractors are competitively selected and District personnel monitor the subcontractor selection process.

Tomorrow's Future Begins In Today's Classrooms

DANNY LITTLE
DISTRICT 1

GEORGE M. COX
DISTRICT 2

LINDA ROBERTS WOOD
DISTRICT 3

BILLY C. QUINN, JR.
DISTRICT 4

JOHN W. WRIGHT
DISTRICT 5

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Page 2

Finding #4

Response: The District will enhance its procedures to monitor verification of subcontractors' licensure status prior to commencement of work on projects.

Finding #5

Response: The District will enhance its procedures for monitoring payment requests to require reconciliation of cost items per CME payment requests to supporting documentation, such as subcontractor invoices, bids, and contract documents, before CME payments are made.

Finding #6

Response: The Board will approve construction change orders monthly after review by district staff.

Finding #7

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

Finding #8

Response: The District will strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to FDOE. The District will determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Please contact my office if I may provide further information or assistance.

Most Sincerely,


Jim Norton
Superintendent

pcs: School Board Members
sworley@gulf.k12.fl.us
patty-crutchfield@aud.state.fl.us
greg-centers@aud.state.fl.us