

LAFAYETTE 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 SUPERINTENDENTS

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

	<u>District No.</u>
Darren Driver, Chair from 11-20-12	1
Henry J. McCray to 11-19-12, Chair	2
Jeff Walker from 1-15-13 (1)	2
Timothy L. Pearson, Vice Chair from 11-20-12	3
Terry Fillyaw to 11-19-12, Vice Chair	4
Amanda Hickman from 11-20-12	4
Reba Trawick	5

Thomas H. Lashley, Superintendent to 11-19-12
Robert (Robby) Edwards, Superintendent from 11-20-12

Note: (1) Position vacant from 11-20-12 to 1-14-13.

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 was coordinated by Philip B. Ciano, CPA. The information technology portion of this audit was conducted by Shawn McCormick, CPA, CISA, and supervised by Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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

**LAFAYETTE COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities.....	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Assets and Liabilities – Fiduciary Funds	19
Notes to Financial Statements	20
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	40
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	42
Notes to Required Supplementary Information.....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	45
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	49
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	56
EXHIBIT A MANAGEMENT'S RESPONSE	57

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: Controls over electronic funds transfers could be enhanced.

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

Finding No. 3: Controls over monitoring school bus drivers could be enhanced.

Finding No. 4: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 5: The District retained State capital outlay appropriation moneys that were subject to reversion to the State.

Finding No. 6: Some inappropriate or unnecessary information technology access privileges existed.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on its major Federal program.

Audit Objectives and Scope

Our audit objectives were to determine whether the Lafayette 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 program; and
- Taken corrective actions for findings included in our report No. 2013-096.

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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 Lafayette County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 57 percent of the assets and 97 percent of the liabilities of the aggregate remaining fund information. Those financial statements, which were prepared on the cash basis, a special purpose framework, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the school internal funds, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar, as it relates to the amounts included for the school internal funds, prior to these conversion adjustments, is based solely on the report of the other auditors. 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 auditor.

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 Lafayette 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 Lafayette 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 the 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

February 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Lafayette 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:

- As of June 30, 2013, the assets exceed the liabilities by \$11,438,113 on the statement of net position.
- In total, net position decreased \$792,424, which represents a 6.5 percent decrease from the net position at June 30, 2012.
- At the close of the fiscal year, the District's governmental funds reported combined fund balances of \$1,030,671, a decrease of \$269,796 in comparison with the prior fiscal year.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$511,877, which is \$425,129 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$352,967, or approximately 4.5 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. Assets less liabilities equal 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 support services, instructional support services, administrative support services, facility maintenance, transportation, 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 – Other Fund, Special Revenue – Federal Economic Stimulus Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

The District uses agency funds to account for resources held for student activities and groups.

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

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	\$ 1,239,902.75	\$ 1,385,252.96
Capital Assets	12,102,783.37	12,333,748.34
Total Assets	13,342,686.12	13,719,001.30
Long-Term Liabilities	1,695,341.01	1,403,677.81
Other Liabilities	209,232.22	84,786.15
Total Liabilities	1,904,573.23	1,488,463.96
Net Position:		
Net Investment in Capital Assets	11,809,879.90	12,153,748.34
Restricted	657,980.17	451,121.04
Unrestricted Deficit	(1,029,747.18)	(374,332.04)
Total Net Position	\$ 11,438,112.89	\$ 12,230,537.34

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

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

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	\$ 75,492.03	\$ 112,151.47
Operating Grants and Contributions	390,115.02	371,107.31
Capital Grants and Contributions	38,683.47	37,596.98
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,586,064.34	1,518,695.20
Property Taxes, Levied for Capital Projects	379,870.11	362,718.37
Grants and Contributions Not Restricted to Specific Programs	7,066,055.56	7,292,346.75
Unrestricted Investment Earnings	2,300.73	2,823.85
Miscellaneous	79,231.37	151,611.16
Total Revenues	9,617,812.63	9,849,051.09
Functions/Program Expenses:		
Instruction	5,000,351.63	5,087,718.31
Pupil Personnel Services	514,399.24	486,289.65
Instructional Media Services	121,056.01	126,300.73
Instruction and Curriculum Development Services	376,576.93	464,194.20
Instructional Staff Training Services	231,085.56	180,556.69
Instruction Related Technology	201,518.07	199,852.90
School Board	227,309.07	150,080.65
General Administration	245,438.82	249,006.42
School Administration	452,891.67	430,377.79
Facilities Acquisition and Construction	19,880.00	165,310.83
Fiscal Services	259,900.25	247,997.83
Food Services	488,541.71	517,573.10
Central Services	2,167.67	2,594.49
Pupil Transportation Services	635,977.32	632,689.51
Operation of Plant	587,075.63	563,811.60
Maintenance of Plant	325,737.93	329,661.77
Administrative Technology Services	193,541.39	97,995.13
Unallocated Interest on Long-Term Debt	10,096.67	13,659.80
Unallocated Depreciation Expense	516,691.51	524,136.77
Total Functions/Program Expenses	10,410,237.08	10,469,808.17
Change in Net Position	(792,424.45)	(620,757.08)
Net Position - Beginning	12,230,537.34	12,851,294.42
Net Position - Ending	\$ 11,438,112.89	\$ 12,230,537.34

The largest revenue source is the State of Florida (64.4 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues decreased by \$226,291, or 3.1 percent, primarily from reduced Federal funding and termination of certain Federal stimulus funds.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$269,796 during the fiscal year to \$1,030,671 at June 30, 2013. Approximately 20.1 percent of this amount is unassigned fund balance (\$207,186), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form, inventories (\$26,156) and Fund B investments (\$9,865); 2) restricted for State required carryover programs (\$58,631), debt service payments (\$5,201), capital projects expenditures (\$489,447), food service expenditures (\$7,848), adult education expenditures (\$32,356), potential claims under the self-insurance plan (\$24,174), and other District purposes (\$24,026); and 3) assigned for Board-approved budget items (\$45,781) and funds set aside to cover self-insurance program deductibles (\$100,000).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$207,186, while the total fund balance is \$511,877. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately 4.5 percent of the total General Fund revenues, while total fund balance represents approximately 6.5 percent of total General Fund revenues.

The fund balance of the District's General Fund decreased by \$425,129 during the 2012-13 fiscal year, primarily because salaries and benefits funded by Federal programs in prior fiscal years were paid from the General Fund in the current fiscal year.

Special Revenue – Other Fund has a zero fund balance at the end of the current fiscal year. Because revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance. This fund accounted for \$849,394 in revenues and \$849,394 in expenditures and other financing uses for the 2012-13 fiscal year. This represents a decrease of \$172,424 from the previous fiscal year from a reduction in Federal funding through the Florida Department of Education.

The Special Revenue – Federal Economic Stimulus Fund also has a zero fund balance at the end of the 2012-13 fiscal year. Because revenue is recognized to the extent that eligible expenditures have been incurred, this fund also does not generally accumulate a fund balance. Revenues and expenditures were \$30,337 each for the 2012-13 fiscal year, a decrease of \$61,997 from the 2011-12 fiscal year due to scheduled expiration of various stimulus programs.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$409,784, which is restricted for the acquisition, renovation and remodeling of capital assets, and debt service payments on capital leases. During the 2012-13 fiscal year, the District financed the purchase of two school buses for \$202,392 through a capital lease agreement that will be paid using these funds, including \$69,489 that was paid in the 2012-13 fiscal year. Additionally,

the District committed \$241,974 of these funds under contract for a kindergarten reroof project, of which \$38,704 was paid in the 2012-13 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final budgeted revenues and expenditures are in line with original budget amounts. Actual revenues are \$43,757 more than the final budgeted amounts, while actual expenditures are \$246,412 less than final budget amounts. Actual expenditures were less than final budgeted expenditures primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$291,850.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for the governmental activities as of June 30, 2013, is \$12,102,783 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixture and equipment; motor vehicles; audio visual materials and computer software; assets under capital lease; and construction in progress. During the 2012-13 fiscal year, the District purchased two school buses through a capital-lease agreement, began construction of a kindergarten reroof project, and acquired computer equipment. The District also removed surplus capital assets during the year. Additional information on the District's capital assets can be found in notes I.F.4, II.C, and II.F to the financial statements.

Long-Term Debt

At June 30, 2013, the District had total bonded debt outstanding of \$160,000. The bonds are backed by the full faith and credit of the State of Florida. The District had an outstanding obligation for a capital lease totaling \$132,903. Additional information on the District's long-term debt can be found in notes II.H through II.I to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

In an environment of uncertain State and Federal revenue resources, the District will continue to closely monitor its financial condition. To help offset the decline of the District's General Fund fund balance, the Board will reduce the number of administrative positions through reorganization, effective July 1, 2013.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, Lafayette County School Board, 363 NE Crawford Street, Mayo, Florida 32066-9248.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 1,021,459.71
Investments	15,065.81
Due from Fiscal Agent	40,220.90
Deposits Receivable	100,000.00
Due from Other Agencies	37,000.19
Inventories	26,156.14
Capital Assets:	
Nondepreciable Capital Assets	396,874.68
Depreciable Capital Assets, Net	11,705,908.69
TOTAL ASSETS	13,342,686.12
LIABILITIES	
Salaries and Benefits Payable	147,313.04
Payroll Deductions and Withholdings	43,917.56
Due to Other Agencies	3,573.62
Estimated Insurance Claims Payable	14,428.00
Long-Term Liabilities:	
Portion Due Within One Year	114,161.15
Portion Due After One Year	1,581,179.86
TOTAL LIABILITIES	1,904,573.23
NET POSITION	
Net Investment in Capital Assets	11,809,879.90
Restricted for:	
State Required Carryover Programs	58,630.68
Debt Service	5,201.43
Capital Projects	489,447.02
Food Service	24,145.12
Other Purposes	80,555.92
Unrestricted	(1,029,747.18)
TOTAL NET POSITION	\$ 11,438,112.89

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

**LAFAYETTE 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	\$ 5,000,351.63	\$ 7,609.00	\$	\$	\$ (4,992,742.63)
Pupil Personnel Services	514,399.24				(514,399.24)
Instructional Media Services	121,056.01				(121,056.01)
Instruction and Curriculum Development Services	376,576.93				(376,576.93)
Instructional Staff Training Services	231,085.56				(231,085.56)
Instruction Related Technology	201,518.07				(201,518.07)
School Board	227,309.07				(227,309.07)
General Administration	245,438.82				(245,438.82)
School Administration	452,891.67				(452,891.67)
Facilities Acquisition and Construction	19,880.00			10,123.49	(9,756.51)
Fiscal Services	259,900.25				(259,900.25)
Food Services	488,541.71	66,596.56	390,115.02		(31,830.13)
Central Services	2,167.67				(2,167.67)
Pupil Transportation Services	635,977.32	1,286.47			(634,690.85)
Operation of Plant	587,075.63				(587,075.63)
Maintenance of Plant	325,737.93				(325,737.93)
Administrative Technology Services	193,541.39				(193,541.39)
Unallocated Interest on Long-Term Debt	10,096.67			28,559.98	18,463.31
Unallocated Depreciation Expense*	516,691.51				(516,691.51)
Total Governmental Activities	\$ 10,410,237.08	\$ 75,492.03	\$ 390,115.02	\$ 38,683.47	(9,905,946.56)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					1,586,064.34
Property Taxes, Levied for Capital Projects					379,870.11
Grants and Contributions Not Restricted to Specific Programs					7,066,055.56
Unrestricted Investment Earnings					2,300.73
Miscellaneous					79,231.37
Total General Revenues					9,113,522.11
Change in Net Position					(792,424.45)
Net Position - Beginning					12,230,537.34
Net Position - Ending					\$ 11,438,112.89

* 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.

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 510,511.15	\$ 11,066.49	\$
Investments	9,864.38		
Due from Fiscal Agent	40,220.90		
Deposits Receivable	100,000.00		
Due from Other Funds	27,716.97		
Due from Other Agencies	12,966.42	22,716.65	
Inventories	9,859.12		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 711,138.94</u>	<u>\$ 33,783.14</u>	<u>\$ 0.00</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 141,579.53	\$ 4,163.49	\$
Payroll Deductions and Withholdings	41,305.98	1,902.68	
Due to Other Funds		27,716.97	
Due to Other Agencies	1,948.47		
Estimated Insurance Claims Payable	14,428.00		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>199,261.98</u>	<u>33,783.14</u>	<u> </u>
Fund Balances:			
Nonspendable:			
Inventories	9,859.12		
Fund B Investments	9,864.38		
Total Nonspendable Fund Balance	<u>19,723.50</u>	<u> </u>	<u> </u>
Restricted for:			
State Required Carryover Programs	58,630.68		
Debt Service			
Capital Projects			
Food Service			
Adult Education Programs	32,355.87		
Self-Insurance	24,174.43		
Other Purposes	24,025.62		
Total Restricted Fund Balance	<u>139,186.60</u>	<u> </u>	<u> </u>
Assigned for:			
Board Approved Budget Items	45,781.33		
Self-Insurance	100,000.00		
Total Assigned Fund Balance	<u>145,781.33</u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>207,185.53</u>	<u> </u>	<u> </u>
Total Fund Balances	<u>511,876.96</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 711,138.94</u>	<u>\$ 33,783.14</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 409,783.59	\$ 90,098.48	\$ 1,021,459.71
	5,201.43	15,065.81
		40,220.90
		100,000.00
		27,716.97
	1,317.12	37,000.19
	16,297.02	26,156.14
<u>\$ 409,783.59</u>	<u>\$ 112,914.05</u>	<u>\$ 1,267,619.72</u>
\$	\$ 1,570.02	\$ 147,313.04
	708.90	43,917.56
	1,625.15	29,342.12
		1,948.47
		14,428.00
	3,904.07	236,949.19
	16,297.02	26,156.14
		9,864.38
	16,297.02	36,020.52
	5,201.43	58,630.68
409,783.59	79,663.43	5,201.43
	7,848.10	489,447.02
		7,848.10
		32,355.87
		24,174.43
		24,025.62
<u>409,783.59</u>	<u>92,712.96</u>	<u>641,683.15</u>
		45,781.33
		100,000.00
		145,781.33
		207,185.53
<u>409,783.59</u>	<u>109,009.98</u>	<u>1,030,670.53</u>
<u>\$ 409,783.59</u>	<u>\$ 112,914.05</u>	<u>\$ 1,267,619.72</u>

**LAFAYETTE 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	\$ 1,030,670.53
---	-----------------

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.	12,102,783.37
--	---------------

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:

Capital Lease Payable	\$ 132,903.47	
Bonds Payable	160,000.00	
Compensated Absences Payable	608,937.54	
Other Postemployment Benefits Payable	793,500.00	
	(1,695,341.01)	

Net Position - Governmental Activities	\$ 11,438,112.89
---	-------------------------

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 14,361.56	\$	\$
Federal Through State and Local	25,158.45	848,553.46	30,336.84
State	6,147,355.25		
Local:			
Property Taxes	1,586,064.34		
Charges for Services - Food Service			
Miscellaneous	91,201.35	840.14	
Total Local Revenues	<u>1,677,265.69</u>	<u>840.14</u>	
Total Revenues	<u>7,864,140.95</u>	<u>849,393.60</u>	<u>30,336.84</u>
Expenditures			
Current - Education:			
Instruction	4,529,355.04	348,786.36	
Pupil Personnel Services	342,407.60	157,361.03	
Instructional Media Services	117,797.23		
Instruction and Curriculum Development Services	327,804.64	82,770.71	
Instructional Staff Training Services	78,443.95	139,619.57	7,176.80
Instruction Related Technology	176,581.97	8,000.89	13,991.00
School Board	222,205.98		
General Administration	202,589.41	35,897.70	1,019.49
School Administration	435,891.69		711.03
Facilities Acquisition and Construction	14,950.00		
Fiscal Services	256,544.51		
Food Services			
Central Services	2,143.00		
Pupil Transportation Services	592,996.00		
Operation of Plant	579,490.91		
Maintenance of Plant	318,745.40		
Administrative Technology Services	162,349.73	28,918.60	
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	1,753.91	48,035.60	7,438.52
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>8,362,050.97</u>	<u>849,390.46</u>	<u>30,336.84</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(497,910.02)</u>	<u>3.14</u>	
Other Financing Sources (Uses)			
Transfers In	99,781.52		
Inception of Capital Lease			
Transfers Out	<u>(27,000.00)</u>	<u>(3.14)</u>	
Total Other Financing Sources (Uses)	<u>72,781.52</u>	<u>(3.14)</u>	
Net Change in Fund Balances	<u>(425,128.50)</u>		
Fund Balances, Beginning	937,005.46		
Fund Balances, Ending	<u>\$ 511,876.96</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	382,613.02	14,361.56
	46,475.47	1,286,661.77
		6,193,830.72
379,870.11		1,965,934.45
	66,596.56	66,596.56
540.38	567.87	93,149.74
<u>380,410.49</u>	<u>67,164.43</u>	<u>2,125,680.75</u>
<u>380,410.49</u>	<u>496,252.92</u>	<u>9,620,534.80</u>
		4,878,141.40
		499,768.63
		117,797.23
		410,575.35
		225,240.32
		198,573.86
		222,205.98
		239,506.60
		436,602.72
4,930.00		19,880.00
		256,544.51
	481,131.92	481,131.92
		2,143.00
		592,996.00
		579,490.91
		318,745.40
		191,268.33
38,703.60		38,703.60
226,594.09		283,822.12
69,488.53	20,000.00	89,488.53
	10,096.67	10,096.67
<u>339,716.22</u>	<u>511,228.59</u>	<u>10,092,723.08</u>
<u>40,694.27</u>	<u>(14,975.67)</u>	<u>(472,188.28)</u>
	27,000.00	126,781.52
202,392.00		202,392.00
(98,101.40)	(1,676.98)	(126,781.52)
<u>104,290.60</u>	<u>25,323.02</u>	<u>202,392.00</u>
144,984.87	10,347.35	(269,796.28)
264,798.72	98,662.63	1,300,466.81
<u>\$ 409,783.59</u>	<u>\$ 109,009.98</u>	<u>\$ 1,030,670.53</u>

**LAFAYETTE 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 \$ (269,796.28)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (228,242.80)

The undepreciated cost of capital assets disposed of during the period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the assets disposed of. (2,722.17)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current period:

Inception of Capital Lease	\$ (202,392.00)	
Capital Lease Payments	69,488.53	
Bond Payments	20,000.00	(112,903.47)

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 earned in excess of the amount paid in the current fiscal year. (6,459.73)

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. (172,300.00)

Change in Net Position - Governmental Activities \$ (792,424.45)

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 148,404.00
Due from Other Funds	1,625.15
TOTAL ASSETS	\$ 150,029.15
LIABILITIES	
Internal Accounts Payable	\$ 150,029.15

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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 function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Lafayette 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 Lafayette 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 (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Lafayette 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.

**LAFAYETTE 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.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for school buses.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

E. Basis of Accounting

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

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

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

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 30 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 30 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.

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

1. Cash and Cash Equivalents

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

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

2. Investments

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests.

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

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.

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 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 purchased during the year and are adjusted at year-end to reflect year-end physical inventories.

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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	10 - 35 years
Buildings and Fixed Equipment	20 - 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.

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

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 funds financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by resolution authorized the director of financial services to assign 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

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

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 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.

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

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

The Board adopted the 2012 tax levy on September 6, 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. Because any delinquent taxes collected after June 30, 2013, would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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 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.

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

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:

Investments	Maturities	Fair Value
State Board of Administration:		
Florida PRIME (1)	40 Day Average	\$ 94,748.16
Fund B	3.98 Year Average	9,864.38
Debt Service Accounts	6 Months	5,201.43
Total Investments		<u>\$ 109,813.97</u>

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

➤ **Interest Rate Risk**

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

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

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

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

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

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 254,561.10	\$	\$ 2,722.17	\$ 251,838.93
Land Improvements	97,782.15			97,782.15
Construction in Progress	8,550.00	38,703.60		47,253.60
Total Capital Assets Not Being Depreciated	360,893.25	38,703.60	2,722.17	396,874.68
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	902,365.21			902,365.21
Buildings and Fixed Equipment	18,827,841.63			18,827,841.63
Furniture, Fixtures, and Equipment	1,324,768.54	81,167.92	191,861.52	1,214,074.94
Motor Vehicles	1,139,477.26		171,758.75	967,718.51
Assets Under Capital Lease		202,654.20		202,654.20
Audio Visual Materials and Computer Software	377,563.79		262,569.07	114,994.72
Total Capital Assets Being Depreciated	22,572,016.43	283,822.12	626,189.34	22,229,649.21
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	650,027.20	21,439.29		671,466.49
Buildings and Fixed Equipment	7,704,665.66	383,943.24		8,088,608.90
Furniture, Fixtures, and Equipment	999,844.24	100,155.09	191,861.52	908,137.81
Motor Vehicles	893,597.00	34,077.01	171,758.75	755,915.26
Audio Visual Materials and Computer Software	351,027.24	11,153.89	262,569.07	99,612.06
Total Accumulated Depreciation	10,599,161.34	550,768.52	626,189.34	10,523,740.52
Total Capital Assets Being Depreciated, Net	11,972,855.09	(266,946.40)		11,705,908.69
Governmental Activities Capital Assets, Net	\$ 12,333,748.34	\$ (228,242.80)	\$ 2,722.17	\$ 12,102,783.37

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

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 34,077.01
Unallocated	<u>516,691.51</u>
Total Depreciation Expense - Governmental Activities	<u>\$550,768.52</u>

D. Florida Retirement System

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

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

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

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

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

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

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$633,143.07, \$437,700.48, and \$445,874.66, respectively, which were equal to the required contributions for each fiscal year.

There were 19 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$42,225.67, 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 Post Employment 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. The District subsidizes the premium rates paid by

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

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. Additionally, the District pays a portion of the cost of healthcare benefits for certain retired former employees (explicitly subsidized). Pursuant to the current instructional and school-related employee contracts, current employees who retire within the first year of eligibility (30 years of service or age 62 and vested with the FRS) and file a Notice of Intent to Retire within the designated timelines, are eligible to receive the benefit. The benefits provided under this defined benefit plan continue until the employees reach 65 years of age or become eligible for Medicare, whichever occurs first. 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 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, 36 retirees received other postemployment benefits. The District provided required contributions of \$115,600 toward the annual OPEB cost, net of retiree contributions totaling \$86,711.31, which represents 1.5 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 146,000
Amortization of Unfunded Actuarial Accrued Liability	137,400
Interest on Normal Cost and Amortization	<u>5,600</u>
Annual Required Contribution	289,000
Interest on Net OPEB Obligation	24,800
Adjustment to Annual Required Contribution	<u>(25,900)</u>
Annual OPEB Cost (Expense)	287,900
Contribution Toward the OPEB Cost	<u>(115,600)</u>
Change in Net OPEB Obligation	172,300
Net OPEB Obligation, Beginning of Year	<u>621,200</u>
Net OPEB Obligation, End of Year	<u><u>\$ 793,500</u></u>

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
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2010-11	\$ 363,500	37.7%	\$ 450,400
2011-12	275,600	38.0%	621,200
2012-13	287,900	40.2%	793,500

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$3,199,200, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,199,200 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,837,400, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 54.8 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.

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

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

The District's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit cost 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 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 general inflation rate of 2.5 percent, payroll growth rate of 2.5 percent per year, and an annual healthcare cost trend rate of 10 percent initially for the 2011-12 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

F. Construction and Other Significant Commitments

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

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

Major Funds			
General	Special Revenue - Other	Capital Projects - Local Capital Improvement	Total Governmental Funds
<u>\$ 600.00</u>	<u>\$ 2,362.69</u>	<u>\$ 203,270.40</u>	<u>\$ 206,233.09</u>

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

Project	Contract Amount	Completed to Date	Balance Committed
Lafayette Elementary School: Reroof Renovation Project	<u>\$ 241,974.00</u>	<u>\$ 38,703.60</u>	<u>\$ 203,270.40</u>

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

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lafayette County District School Board participates in a group self-insurance program administered by the Florida School Boards Association, Inc. The District's covered risks related to comprehensive property and liability insurance, general liability, workers' compensation, money and securities, and employees' fidelity and faithful performance are included in the group program. The program is self-sustaining through member assessments (premiums) and purchases coverage through commercial companies for claims in excess of specified amounts.

The District also participates in supplemental employee group insurance programs administered through the North East Florida Educational Consortium (Consortium) for life, dental, vision, disability, and accidental death and dismemberment. The Consortium is governed by a board of directors composed of the superintendents of participating school districts. The Consortium is self-sustaining through member assessments (premiums) and purchases coverage through commercial companies for claims in excess of specified amounts. The Consortium offices are located in Putnam County, and the Putnam County District School Board is the fiscal agent. Premiums charged to the districts are based on each individual district's claims experience, and the program operates as an individually-funded plan by each participating district with shared administrative costs and a pooling of plan assets for working capital. Accordingly, the District reports the District's estimated liability for unpaid claims. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such risk management programs.

A liability in the amount of \$14,428 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2013.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2011-12	\$ 18,142.45	\$ 166,117.78	\$ (168,213.76)	\$ 16,046.47
2012-13	16,046.47	152,471.11	(154,089.58)	14,428.00

The District's health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

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

H. Capital Lease Payable

Two school busses with a total cost of \$202,392 are being acquired under a capital lease agreement. Future minimum capital lease payments and the present value of the minimum lease payments as of June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 69,488.53	\$ 65,459.52	\$ 4,029.01
2015	69,488.53	67,443.95	2,044.58
Total Minimum Lease Payments	<u>\$ 138,977.06</u>	<u>\$ 132,903.47</u>	<u>\$ 6,073.59</u>

The stated interest rate is 3.03 percent.

I. Long-term Liabilities

1. Bonds Payable

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds: Series 2005B, Refunding	<u>\$ 160,000</u>	5.0	2020

These bonds are issued by the State Board of Education on behalf of the District 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 SBE and the SBA.

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

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	\$ 28,000	\$ 20,000	\$ 8,000
2015	27,000	20,000	7,000
2016	26,000	20,000	6,000
2017	30,000	25,000	5,000
2018	28,750	25,000	3,750
2019-2020	53,750	50,000	3,750
Total State School Bonds	<u>\$ 193,500</u>	<u>\$ 160,000</u>	<u>\$ 33,500</u>

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					
Capital Lease Payable	\$	\$ 202,392.00	\$ 69,488.53	\$ 132,903.47	\$ 65,459.52
Bonds Payable	180,000.00		20,000.00	160,000.00	20,000.00
Compensated Absences Payable	602,477.81	72,898.47	66,438.74	608,937.54	28,701.63
Other Postemployment Benefits Payable	621,200.00	287,900.00	115,600.00	793,500.00	
Total Governmental Activities	<u>\$ 1,403,677.81</u>	<u>\$ 563,190.47</u>	<u>\$ 271,527.27</u>	<u>\$ 1,695,341.01</u>	<u>\$ 114,161.15</u>

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. Due to the nature of the liability there is no amount of other postemployment benefits due in one year.

J. Fund Balance Reporting

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

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **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.

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

- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

K. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 27,716.97	\$
Special Revenue:		
Other		27,716.97
Nonmajor Governmental		1,625.15
Fiduciary	1,625.15	
Total	<u>\$ 29,342.12</u>	<u>\$ 29,342.12</u>

Interfund receivables and payables were primarily for amounts due for expenditures paid by a particular fund on behalf of another fund.

L. Revenues

1. Schedule of State Revenue Sources

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

Source	Amount
Florida Education Finance Program	\$ 4,659,721.00
Categorical Educational Program - Class Size Reduction	1,183,660.00
Workforce Development Program	54,893.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	39,265.41
Mobile Home License Tax	3,934.49
Food Service Supplement	7,502.00
Miscellaneous	244,854.82
Total	<u>\$ 6,193,830.72</u>

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

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

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	5.265	\$ 1,374,594
Basic Discretionary Local Effort	0.748	195,289
Critical Operating Needs	0.250	65,270
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	391,622
Total	<u>7.763</u>	<u>\$ 2,026,775</u>

M. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 99,781.52	\$ 27,000.00
Special Revenue:		
Other		3.14
Capital Projects:		
Local Capital Improvement		98,101.40
Nonmajor Governmental	27,000.00	1,676.98
Total	<u>\$ 126,781.52</u>	<u>\$ 126,781.52</u>

Funds were used to reimburse the General Fund for property casualty insurance premiums and to supplement food service operations.

III. LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims should become a liability of the General Fund or other applicable funds. The questioned costs identified in the audit of Federal programs for the fiscal year ended June 30, 2012, totaled \$157,799.

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**LAFAYETTE 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	\$	\$	\$	\$
Federal Through State and Local	25,000.00	25,000.00	25,158.45	158.45
State	6,246,305.38	6,137,541.47	6,147,355.25	9,813.78
Local:				
Property Taxes	1,558,161.00	1,558,161.00	1,586,064.34	27,903.34
Miscellaneous	25,000.00	99,681.15	91,201.35	(8,479.80)
Total Local Revenues	<u>1,583,161.00</u>	<u>1,657,842.15</u>	<u>1,677,265.69</u>	<u>19,423.54</u>
Total Revenues	<u>7,854,466.38</u>	<u>7,820,383.62</u>	<u>7,864,140.95</u>	<u>43,757.33</u>
Expenditures				
Current - Education:				
Instruction	4,676,931.36	4,609,533.01	4,529,355.04	80,177.97
Pupil Personnel Services	347,055.73	365,903.74	342,407.60	23,496.14
Instructional Media Services	152,260.96	153,279.24	117,797.23	35,482.01
Instruction and Curriculum Development Services	289,877.50	327,804.64	327,804.64	
Instructional Staff Training Services	82,611.48	93,939.16	78,443.95	15,495.21
Instruction Related Technology	148,701.08	186,339.58	176,581.97	9,757.61
School Board	241,686.41	231,683.22	222,205.98	9,477.24
General Administration	196,661.38	204,452.71	202,589.41	1,863.30
School Administration	430,401.00	443,153.44	435,891.69	7,261.75
Facilities Acquisition and Construction	25,826.09	25,826.09	14,950.00	10,876.09
Fiscal Services	251,888.00	256,544.51	256,544.51	
Central Services	2,593.00	2,903.00	2,143.00	760.00
Pupil Transportation Services	560,321.58	607,170.82	592,996.00	14,174.82
Operation of Plant	612,834.00	587,710.86	579,490.91	8,219.95
Maintenance of Plant	289,933.00	324,802.34	318,745.40	6,056.94
Administrative Technology Services	94,301.47	167,623.77	162,349.73	5,274.04
Fixed Capital Outlay:				
Other Capital Outlay	<u>27,293.28</u>	<u>19,793.28</u>	<u>1,753.91</u>	<u>18,039.37</u>
Total Expenditures	<u>8,431,177.32</u>	<u>8,608,463.41</u>	<u>8,362,050.97</u>	<u>246,412.44</u>
Deficiency of Revenues Over Expenditures	<u>(576,710.94)</u>	<u>(788,079.79)</u>	<u>(497,910.02)</u>	<u>290,169.77</u>
Other Financing Sources (Uses)				
Transfers In		98,101.40	99,781.52	1,680.12
Transfers Out		(27,000.00)	(27,000.00)	
Total Other Financing Sources		<u>71,101.40</u>	<u>72,781.52</u>	<u>1,680.12</u>
Net Change in Fund Balances	<u>(576,710.94)</u>	<u>(716,978.39)</u>	<u>(425,128.50)</u>	<u>291,849.89</u>
Fund Balances, Beginning	<u>837,005.46</u>	<u>937,005.46</u>	<u>937,005.46</u>	
Fund Balances, Ending	<u>\$ 260,294.52</u>	<u>\$ 220,027.07</u>	<u>\$ 511,876.96</u>	<u>\$ 291,849.89</u>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 31,778.26	\$ 893,868.35	\$ 848,553.46	\$ (45,314.89)	\$ 70,772.31	\$ 117,725.31	\$ 30,336.84	\$ (87,388.47)
	840.14	840.14					
	840.14	840.14					
31,778.26	894,708.49	849,393.60	(45,314.89)	70,772.31	117,725.31	30,336.84	(87,388.47)
13,192.62	382,956.98	348,786.36	34,170.62	3,179.47	13,027.00		13,027.00
2,137.50	162,108.94	157,361.03	4,747.91				
	86,442.02	82,770.71	3,671.31				
	142,174.49	139,619.57	2,554.92	21,154.95	28,262.95	7,176.80	21,086.15
10,343.85	8,000.89	8,000.89		6,093.86	35,131.88	13,991.00	21,140.88
854.29	36,067.83	35,897.70	170.13	1,801.74	5,118.57	1,019.49	4,099.08
				4,618.27	4,760.89	711.03	4,049.86
					1,000.00		1,000.00
	28,918.60	28,918.60					
5,250.00	48,035.60	48,035.60		33,924.02	30,424.02	7,438.52	22,985.50
31,778.26	894,705.35	849,390.46	45,314.89	70,772.31	117,725.31	30,336.84	87,388.47
	3.14	3.14					
	(3.14)	(3.14)					
	(3.14)	(3.14)					
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**LAFAYETTE 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]
July 1, 2009	\$ 0	\$ 3,990,900	\$ 3,990,900	0.0%	\$ 5,754,400	69.4%
July 1, 2011	0	3,199,200	3,199,200	0.0%	5,837,400	54.8%

Note: (1) The District's OPEB actuarial valuation used the projected unit credit cost method to estimate the actuarial accrued liability.

**LAFAYETTE 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 SBE rules in establishing budget balances for governmental funds, as described below:

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2011, unfunded actuarial accrued liability of \$3,199,200 was significantly lower than the July 1, 2009, liability of \$3,990,900 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- Dental and vision benefits are no longer included because the retiree contribution rates are believed to be sufficient to cover the cost of the benefit.
- The claim costs have been updated to reflect the most recent premium rates.
- The mortality table has been updated to the IRS PPA Funding Mortality Table, fully generational. The previous valuation used the 2007 Current Liability Mortality Table.
- The retirement and termination rate tables have been updated to reflect the July 1, 2011, FRS pension valuation.
- The assumed annual healthcare cost trend for medical and prescription costs was reset. In the previous valuation, the initial healthcare cost trend was assumed to increase at 10 percent in the first year, decreasing by 1 percent each year to an ultimate rate of 5 percent after five years. In the current valuation, the trend was reset to an increase of 10 percent in the first year, decreasing by 0.5 percent each year to an ultimate rate of 5 percent after ten years.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LAFAYETTE 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	\$ 79,903.44
National School Lunch Program	10.555 (2)	300	288,221.61
Summer Food Service Program for Children	10.559	323	3,724.80
Total United States Department of Agriculture			371,849.85
United States Department of Education:			
Direct:			
Teacher Incentive Fund	84.374	N/A	14,361.56
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027	263	219,670.88
Special Education - Preschool Grants	84.173	267	10,119.88
Total Special Education Cluster			229,790.76
Adult Education - Basic Grants to States	84.002	191	37,170.00
Title I Grants to Local Educational Agencies	84.010	212, 228	288,179.81
Migrant Education - State Grant Program	84.011	217	15,836.98
Career and Technical Education - Basic Grants to States	84.048	161	28,028.10
Education for Homeless Children and Youth	84.196	127	26,950.06
Education Technology State Grants	84.318	122	95,084.00
Rural Education	84.358	110	33,723.09
English Language Acquisition Grants	84.365	102	11,142.83
Improving Teacher Quality State Grants	84.367	224	82,647.83
ARRA - State Fiscal Stabilization Fund (SFSF) -			
Race-to-the-Top Incentive Grants, Recovery Act	84.395	RD211, RG311, RL111	30,336.84
Total Indirect			878,890.30
Total United States Department of Education			893,251.86
Total Expenditures of Federal Awards			\$ 1,265,101.71

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance - National School Lunch Program. Includes \$27,819.96 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 Lafayette 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 February 18, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, as described in our report on the Lafayette 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
February 18, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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

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

Report on Compliance for the Major Federal Program

We have audited the Lafayette 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 the District's major Federal program for the fiscal year ended June 30, 2013. The District's major Federal program is 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 the District's major Federal program 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 the major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on 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 its major Federal program 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
February 18, 2014

**LAFAYETTE 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 program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major program:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Electronic Funds Transfers

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

During the 2012-13 fiscal year, the District regularly used EFTs to transfer funds between its bank accounts and to make electronic disbursements for direct deposits of employee pay and other payroll-related activities, such as taxes withheld and matching contributions, and Florida Retirement System contributions. According to District records, cash and cash equivalents, and investments, totaling \$1 million were available for electronic transfer at June 30, 2013. The Board established agreements with two banks and with the State Board of Administration to provide various services, such as EFTs.

While the District used informal processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. The District had implemented controls that compensated, in part, for the lack of Board-approved policies and procedures, such as management review of EFT transactions and independent bank reconciliations, and our tests did not disclose any EFTs for unauthorized purposes; however, the lack of specific guidance in the form of Board-approved written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Section 1010.11 and Chapter 668, Florida Statutes.

Recommendation: The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures.

Finding No. 2: Facilities Management

The Director of Support Services is responsible for coordinating outsourced construction and renovation projects and ensuring facilities are safe and suitable for their intended use. During the 2012-13 fiscal year, the District allocated

three 12-month full-time positions to perform heating, ventilating, and air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs, and costs for maintenance of educational and ancillary facilities totaled \$318,745. Also, during this fiscal year, the District had expenditures totaling \$38,704 for capital projects fund construction and renovation (Lafayette kindergarten reroof project) and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on October 15, 2013, the District planned to spend \$763,766 on capital outlay construction, renovation, remodeling, and maintenance projects over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$20 million and, as shown on Florida Department of Education's (FDOE) Florida Inventory of School Houses data, District facilities had an average age of 31 years.

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

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction and renovation contracts to design professionals and construction contractors using construction manager at risk methods. In addition, maintenance-related jobs, such as plumbing, electrical and HVAC repairs, are routinely performed by maintenance personnel based on safety and suitability priorities, although some jobs are outsourced to contractors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction, renovation, or remodeling project or significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The District had not established goals that identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the District could set goals such as completing renovation or remodeling projects, or maintenance-related jobs, that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

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

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

Finding No. 3: Bus Drivers

SBE Rule 6A-3.0141(6), FAC, requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to the first day of the fall semester, and thereafter using automated weekly updates. Board policy requires that school bus drivers have valid commercial drivers' licenses with passenger and school bus endorsements, and provides that bus drivers who should have known that their license was expired, suspended, or revoked be subject to prescribed disciplinary measures up to and including termination of employment by the Board.

The District school bus operations handbook also contains information about vehicle operation and safety, student safety, and other related information. In addition, Section 1012.465(2), Florida Statutes, provides that noninstructional personnel, such as bus drivers, who have direct contact with students must undergo required background screenings at least every five years. District personnel indicated that they periodically perform background screenings of all school bus drivers by submitting fingerprints to the Florida Department of Law Enforcement.

District personnel monthly reviewed bus driver history records to confirm that drivers were appropriately licensed; however, the automated weekly updates were not reviewed, contrary to SBE Rule 6A-3.0141(6), FAC. Also, our test of six bus drivers disclosed four who did not have the required background screenings within the last five years as the required screenings were 16 months late for three drivers and 21 months late for the remaining driver.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that the District review bus driver history automated weekly updates and ensure bus drivers undergo required background screenings at least every five years.

Recommendation: The District should enhance its procedures to ensure school bus drivers meet the requirements to operate school buses. Such procedures should include documented review of bus driver history automated weekly updates and background screenings of bus drivers at least every five years.

Finding No. 4: Virtual Instruction

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

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

- Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in VIPs, and Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely written notification of the open enrollment periods for their

VIPs. The District's and NEFEC's Web sites have links with information about the District's VIP, and the District distributes newsletters at the beginning and end of each school year disclosing the availability of the VIP. The newsletters for students in middle/high school are sent by direct mailing to the students' home address; however, the newsletters for the elementary school students are sent home with the student. Without evidence that written notification was provided directly to parents or legal guardians, some parents or guardians of elementary school students may not have been informed of the available VIP options and the associated enrollment periods, potentially resulting in limited student access to virtual instruction types.

- Section 1012.55(1), Florida Statutes, requires that each person serving in an instructional capacity in any public school in any school district within Florida, including personnel providing direct instruction to students through a virtual environment or through a blended virtual and physical environment, hold the certificate required by law. In addition, Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State. The District's contract with NEFEC provided that NEFEC was responsible for assigning teachers who are certified in their respective areas and for supervising the contracted teachers. However, the District did not request or obtain confirmation that the teachers were certified, or were subject to required background screenings. Without effective controls to ensure that VIP provider teachers are certified and subjected to required background screenings, there is an increased risk that teachers may not be appropriately certified and may have backgrounds that are inappropriate for communicating with students.
- Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance. NEFEC has a record each time that a student logs in to work on a course, and the District relies on NEFEC to maintain attendance and to inform the District if a student is not participating as necessary to remain in the course. However, the District did not verify attendance for the two students who were enrolled full-time and who took the courses from locations other than at one of the District's schools. As such, District records did not evidence that these students satisfied the statutorily required compulsory attendance requirements.

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

Finding No. 5: State Capital Outlay Appropriations

Section 216.301(2), Florida Statutes, provides that the unexpended balance of any appropriation for fixed capital outlay for an educational facility that is not contracted, or committed to be expended, prior to February 1 of the third fiscal year, shall revert on February 1 of such year to the fund from which it was appropriated. Consequently, the 2009-10 fiscal year fixed capital outlay appropriations for educational facilities were subject to reversion on February 1, 2012, if the Board had not approved a contract, received bids, issued notice of intent to award a contract, or issued a purchase order to accomplish the work with in-house staff.

The District receives annual appropriations of class size reduction operating funds to assist the District in meeting the constitutional class size requirements of Section 1003.03, Florida Statutes. For each school that is in noncompliance with the class size requirements, the FDOE requires the District to transfer a calculated amount based on the extent of the noncompliance from the class size reduction operating categorical funds to a fixed capital outlay account to be used for class size reduction. In addition, FDOE personnel indicated that appropriations

transferred to fixed capital outlay accounts are subject to the reversion requirements of Section 216.301(2), Florida Statutes.

During the 2009-10 fiscal year, the District received \$1,141,908 of class size reduction operating appropriation moneys and, in December 2009, the FDOE notified the District that it did not meet the class size requirements and directed the District to transfer \$42,671 to a fixed capital outlay account for class size reduction. However, at June 30, 2013, these funds were still held by the District and were not committed under terms of a binding contract or otherwise committed to be expended. As such, the District had \$42,671 of State capital outlay appropriations that are subject to reversion as prescribed by Section 216.301(2), Florida Statutes.

Recommendation: The District should establish procedures to ensure adequate accountability for State appropriations subject to reversion pursuant to Section 216.301(2), Florida Statutes. In addition, the District should document compliance with this statute to the FDOE or revert the \$42,671 to the FDOE.

Finding No. 6: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end-users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions. In addition, appropriate restrictions of application end-user access privileges are necessary to preclude the possibility of one employee controlling all critical stages of a transaction process, including a combination of functions such as data entry and verification of data, reconciliation of output, or supervisory authorization functions.

Our tests of selected access privileges to the District's finance and human resources (HR) applications disclosed that some District employees had access privileges that permitted employees to perform unnecessary and incompatible functions. Specifically, the District's Chief Technology Officer (CTO) and Office Bookkeeper had systemwide access privileges that allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data and security tables. In response to our inquiry, District management indicated that systemwide access had been assigned to the Office Bookkeeper for backup security administrator responsibilities and to the CTO for IT administration responsibilities.

The District had certain compensating controls in place (e.g., supervisory monitoring of expenditures and employee activities, timely independent bank reconciliations, and supervisory review and approval of transactions such as journal entries and electronic funds transfers). Also, the Director of Business Services annually reviewed the access privileges assigned to the profiles created for the finance and HR applications. Nevertheless, complete update access privileges to the applications did not appear necessary for these employees' responsibilities and were contrary to an appropriate separation of end-user functions. The existence of the inappropriate and unnecessary access privileges described above indicated a need for an improved assignment of access to functions within the finance and HR applications and increased the risk of unauthorized disclosure, modification, or destruction of data and IT resources.

Recommendation: The District should ensure that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities.

PRIOR AUDIT FOLLOW-UP

Except as noted in the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2013-096.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*LAFAYETTE 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
2013-06 (1)	Even Start - State Educational Agencies (CFDA No. 84.213) - Matching, Level of Effort, Earmarking - Matching	District records did not evidence that the Even Start program matching requirements were met, resulting in \$157,799 of questioned costs.	Not Corrected.	Documentation has been sent to the grantor, and the District is currently awaiting a response.
2013-06 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, 10.559) - Eligibility and Special Tests and Provisions - Verifications	District procedures were insufficient to ensure that the meal status of students was accurately assessed and documented in accordance with Federal regulations for Child Nutrition Cluster programs.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



Lafayette County School Board

363 N.E. Crawford Street • Mayo, Florida 32066-5612

Telephone: (386) 294-1351

FAX: (386) 294-3072

February 10, 2014

Mr. David W. Martin, CPA
Office of the Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32302

Dear Mr. Martin:

I am in receipt of the preliminary and tentative findings for the fiscal year ending June 30, 2013. The response to the findings is as follows:

Electronic Funds Transfers: The board will adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures.

Facilities Management: District personnel is currently working on developing written policies and procedures requiring the periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and being able to document these evaluations. The District is also currently developing goals and objectives for the maintenance employees to identify cost-effectiveness or efficiency outcomes for these personnel.

Bus Drivers: The District receives automated weekly updates of bus driver history records. These records are being reviewed and documented on a weekly basis. The District has enhanced its procedures to ensure that background screenings of bus drivers are performed every five years.

Virtual Instruction: The District has developed written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

State Capital Outlay Appropriations: The District is communicating and working with DOE concerning compliance and reversion of the funds.

Information Technology – Access Privileges: The District has ensured that access privileges assigned enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned responsibilities.

DARREN DRIVER
DISTRICT ONE

JEFF WALKER
DISTRICT TWO

TIMOTHY L. PEARSON
DISTRICT THREE

AMANDA HICKMAN
DISTRICT FOUR

REBA TRAWICK
DISTRICT FIVE

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

I wish to commend Phil Ciano and Micah Rogers from the Gainesville Division for conducting this audit in a very timely and professional manner. We value their knowledge and expertise relating to school operations.

Sincerely,

A handwritten signature in black ink that reads "Robert Edwards". The signature is written in a cursive style with a large, sweeping initial "R".

Robert Edwards
Superintendent of Schools

RE/tmm