

GADSDEN COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Eric F. Hinson to 11-19-12, Vice Chair	1
Audrey D. Lewis from 11-20-12	1
Judge B. Helms, Jr., Chair to 11-19-12	2
Isaac Simmons, Jr., Chair from 11-20-12	3
Charlie D. Frost	4
Roger P. Milton, Vice Chair from 11-20-12	5

Reginald C. James, Superintendent

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

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

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

**GADSDEN COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, the significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that account balances and transactions are properly reported on the financial statements.

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. 2: The District did not obtain the required biennial actuarial valuation to support the amount reported as the liability for other postemployment benefits provided by the District.

Finding No. 3: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 4: The District had not developed a written comprehensive information technology (IT) disaster recovery plan.

Finding No. 5: District's IT security controls related to logging and monitoring of network activity needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, Improving Teacher Quality, School Improvement Grants Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Special Education Cluster programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: The District did not have adequate procedures to monitor its compliance with the Special Education Cluster programs maintenance of effort requirement, resulting in a maintenance of effort shortfall of \$224,650.

Federal Awards Finding No. 2: The District used Race-to-the-Top program funds for expenditures incurred outside the period of availability, resulting in \$10,278 of questioned costs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2013-167.

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Gadsden 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 39 percent of the assets and 78 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. In addition, we did not audit the financial statements of the discretely presented component unit, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. 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 discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Gadsden 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.

Emphasis of Matters

As discussed in note II.A to the financial statements, the Crossroad Academy Charter School was not reported as a discretely presented component unit in prior fiscal years; however, the Charter School now meets the criteria of being a component unit of the District and, therefore, is reported for the 2012-13 fiscal year.

As discussed in note II.B to the financial statements, the District adopted new accounting guidance GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires separate reporting of deferred outflows of resources and deferred inflows of resources.

As discussed in note II.C to the financial statements, the District elected to early implement new accounting guidance GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, resulting in unavailable revenues reported as deferred inflows at June 30, 2013.

These matters affect the comparability of amounts reported for the 2012-13 fiscal year with amounts reported for the 2011-12 fiscal year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental

Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Gadsden 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 intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

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

FINANCIAL HIGHLIGHTS

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

- The District's total net position decreased by \$2.3 million, or 3 percent.
- General revenues total \$58.4 million, or 93 percent of all revenues for the 2012-13 fiscal year, compared to \$54.4 million, or 92 percent for the 2011-12 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$4.4 million, or 7 percent of all revenues, compared to \$4.4 million, or 8 percent, in the prior fiscal year.
- The assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$2.2 million at June 30, 2013, or 5 percent of General Fund expenditures, as compared to \$2.8 million at June 30, 2012, or 7 percent of General Fund expenditures.
- During the current fiscal year, General Fund expenditures exceeded revenues by \$2.1 million. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by \$2.5 million.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to 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. The difference between the assets and liabilities, the net position, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

- **Governmental activities** – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- **Component unit** – The District presents the Crossroad Academy Charter School as a separate legal entity as a discretely presented component unit. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for the component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide 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, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Other 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.

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	\$ 7,180,610	\$ 8,278,735
Capital Assets	70,136,719	71,797,257
Total Assets	77,317,329	80,075,992
Long-Term Liabilities	6,836,423	6,872,011
Other Liabilities	559,291	948,407
Total Liabilities	7,395,714	7,820,418
Net Position:		
Net Investment in Capital Assets	69,056,719	70,532,257
Restricted	3,355,954	3,595,721
Unrestricted Deficit	(2,491,058)	(1,872,404)
Total Net Position	\$ 69,921,615	\$ 72,255,574

The largest portion of the District's net position (99 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

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	\$ 285,595	\$ 320,085
Operating Grants and Contributions	3,753,359	3,733,032
Capital Grants and Contributions	371,682	395,365
General Revenues:		
Property Taxes, Levied for Operational Purposes	8,908,718	9,292,279
Property Taxes, Levied for Capital Projects	2,148,318	2,170,401
Grants and Contributions Not Restricted to Specific Programs	45,118,679	41,918,819
Unrestricted Investment Earnings	28,688	32,267
Miscellaneous	2,155,834	980,061
Total Revenues	62,770,873	58,842,309
Functions/Program Expenses:		
Instruction	28,843,636	28,737,325
Pupil Personnel Services	3,004,035	2,848,919
Instructional Media Services	873,120	945,969
Instruction and Curriculum Development Services	2,520,344	2,405,630
Instructional Staff Training Services	2,340,657	2,213,160
Instruction Related Technology	1,231,217	288,936
School Board	479,534	578,592
General Administration	845,317	756,650
School Administration	3,458,159	3,270,013
Facilities Acquisition and Construction	416,610	220,394
Fiscal Services	459,248	453,196
Food Services	4,087,449	4,071,981
Central Services	585,334	503,893
Pupil Transportation Services	4,382,727	4,009,905
Operation of Plant	5,777,525	5,309,446
Maintenance of Plant	1,500,492	1,539,450
Administrative Technology Services	690,525	452,080
Community Services	373,726	320,041
Unallocated Interest on Long-Term Debt	65,493	71,902
Unallocated Depreciation Expense	3,141,684	2,819,949
Loss on Disposal of Capital Assets	28,000	
Total Functions/Program Expenses	65,104,832	61,817,431
Deficiency Before Special Item	(2,333,959)	(2,975,122)
Special Item		(865,934)
Change in Net Position	(2,333,959)	(3,841,056)
Net Position - Beginning	72,255,574	76,096,630
Net Position - Ending	\$ 69,921,615	\$ 72,255,574

The largest revenue source is the State of Florida (48 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. Other State revenues are primarily for meeting the requirements of the class size amendment.

Grants and contributions not restricted to specific programs revenues increased by \$3.2 million from the 2011-12 fiscal year due, in part, to increased FEFP revenue of \$1.1 million, American Recovery and Reinvestment Act (ARRA) - funded Race-to-the-Top and School Improvement Grants totaling \$0.6 million, and non-ARRA Federal grants totaling \$0.9 million.

Instruction expenses represent 44 percent of total governmental expenses in the 2012-13 fiscal year. Instruction expenses did not significantly change from the prior fiscal year. Overall expenditures increased due to increases in administrators and non-instructional staff, as well as increases in Federal program expenses corresponding to the revenue increases mentioned above.

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 \$0.9 million during the fiscal year to \$5.7 million at June 30, 2013. Approximately 37 percent of this amount is unassigned fund balance (\$2.1 million), 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 (\$0.2 million), 2) restricted for particular purposes (\$3.3 million), or 3) assigned for particular purposes (\$0.1 million).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, assigned and unassigned fund balance is \$2.2 million, while the total fund balance is \$2.8 million. The total fund balance decreased by \$0.9 million during the fiscal year. Key factors impacting the change in fund balance are declining enrollment and an increase in student support and administration personnel.

The Special Revenue – Other Fund is used by the District to account for resources of certain Federal grant programs and, for the 2012-13 fiscal year, had revenues and expenditures totaling \$11.5 million each. Also, the Special Revenue - Federal Economic Stimulus Fund had revenues and expenditures of \$2.5 million each during the current fiscal year and is used by the District to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act, such as the Race-to-the-Top grant. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these special revenue funds do not generally accumulate significant fund balances.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of \$2.6 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance did not significantly change in the current fiscal year. It should be noted that \$1.2 million of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant differences between the General Fund final amended budget and the actual reported amounts. Over the course of the fiscal year, the District revised its budget and brought amendments to the Board when needed. These amendments were needed to adjust to actual revenues received and direct resources where needed, and the Board approved the final amendment to the budget after fiscal year-end.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, is \$70.1 million (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and construction in progress.

Additional information on the District's capital assets can be found in note III.D to the financial statements.

Long-Term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$1.08 million, comprised of bonds payable. During the current fiscal year, retirement of debt was \$0.185 million. Additional information on the District's long-term debt can be found in note III.I to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Revenues from State sources for current operations are primarily from the FEFP administered by the Florida Department of Education under provisions of Section 1011.62, Florida Statutes. Funding from this formula is based on factors such as the legislative determination of the base student allocation, and the number of full-time equivalent students enrolled in the District. Continued expected declines in student enrollment will negatively impact future FEFP appropriations.

The District will continue with current plans to reduce expenses and build reserves to offset future reductions.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the Gadsden County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business and Finance, Gadsden County District School Board, 35 Martin Luther King, Jr., Boulevard, Quincy, FL 32351.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 4,099,535.48	\$ 1,150,974.00
Investments	64,462.59	263,237.00
Accounts Receivable	92,251.61	
Due from Primary Government		87,933.00
Due from Other Agencies	1,799,678.85	
Prepaid Items		35,697.00
Notes Receivable	877,581.01	
Inventories	247,099.96	
Capital Assets:		
Nondepreciable Capital Assets	1,757,754.64	
Depreciable Capital Assets, Net	68,378,964.68	3,884,428.00
TOTAL ASSETS	77,317,328.82	5,422,269.00
LIABILITIES		
Payroll Deductions and Withholdings	270.80	
Accounts Payable	431,330.67	179,138.00
Due to Component Unit	51,450.00	
Accrued Interest Payable		56,607.00
Unearned Revenue	76,238.98	
Long-Term Liabilities:		
Portion Due Within One Year	785,000.00	59,193.00
Portion Due After One Year	6,051,423.41	2,027,316.00
TOTAL LIABILITIES	7,395,713.86	2,322,254.00
NET POSITION		
Net Investment in Capital Assets	69,056,719.32	
Restricted for:		
State Required Carryover Programs	379,927.51	
Federal Required Carryover Program	4,429.02	
Debt Service	30,133.10	
Capital Projects	2,819,489.69	
Food Service	121,974.12	
Unrestricted	(2,491,057.80)	3,100,015.00
TOTAL NET POSITION	\$ 69,921,614.96	\$ 3,100,015.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 28,843,636.49	\$ 52,482.24	\$	\$
Pupil Personnel Services	3,004,035.18			
Instructional Media Services	873,120.48			
Instruction and Curriculum Development Services	2,520,343.93			
Instructional Staff Training Services	2,340,656.69			
Instruction Related Technology	1,231,216.55			
School Board	479,533.63			
General Administration	845,316.53			
School Administration	3,458,158.54			
Facilities Acquisition and Construction	416,610.23			127,486.03
Fiscal Services	459,248.32			
Food Services	4,087,449.12	153,733.84	3,753,358.88	
Central Services	585,334.24			
Pupil Transportation Services	4,382,726.66	79,379.03		
Operation of Plant	5,777,525.03			
Maintenance of Plant	1,500,492.13			
Administrative Technology Services	690,524.96			
Community Services	373,726.42			
Unallocated Interest on Long-Term Debt	65,493.27			244,195.75
Unallocated Depreciation/Amortization Expense*	3,141,683.95			
Loss on Disposal of Capital Assets	28,000.00			
Total Primary Government	\$ 65,104,832.35	\$ 285,595.11	\$ 3,753,358.88	\$ 371,681.78
Component Unit				
Crossroad Academy Charter School	\$ 2,074,799.00	\$ 0.00	\$ 0.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Adjustment to Beginning Net Position				
Net Position - Beginning, as Restated				
Net Position - Ending				

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

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component
Governmental	Unit
Activities	
\$	\$
(28,791,154.25)	
(3,004,035.18)	
(873,120.48)	
(2,520,343.93)	
(2,340,656.69)	
(1,231,216.55)	
(479,533.63)	
(845,316.53)	
(3,458,158.54)	
(289,124.20)	
(459,248.32)	
(180,356.40)	
(585,334.24)	
(4,303,347.63)	
(5,777,525.03)	
(1,500,492.13)	
(690,524.96)	
(373,726.42)	
178,702.48	
(3,141,683.95)	
(28,000.00)	
(60,694,196.58)	
	(2,074,799.00)
8,908,717.57	
2,148,318.46	
45,118,678.98	2,184,721.00
28,688.06	
2,155,833.93	
58,360,237.00	2,184,721.00
(2,333,959.58)	109,922.00
72,255,574.54	
	2,990,093.00
72,255,574.54	2,990,093.00
\$ 69,921,614.96	\$ 3,100,015.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,229,551.06	\$ 1,886.39	\$
Investments	34,329.49		
Accounts Receivable	39,769.37		
Due from Other Funds	869,433.51		
Due from Other Agencies	671,350.97	854,579.70	127,170.48
Notes Receivable	877,581.01		
Inventories	189,534.01		
TOTAL ASSETS	\$ 3,911,549.42	\$ 856,466.09	\$ 127,170.48
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 270.80	\$	\$
Accounts Payable	214,535.50	113,151.77	42,574.93
Due to Other Funds		683,432.95	63,808.92
Due to Component Unit	51,450.00		
Unearned Revenue		55,452.35	20,786.63
Total Liabilities	266,256.30	852,037.07	127,170.48
Deferred Inflows of Resources:			
Unavailable Revenue - Notes Receivable	877,581.01		
Fund Balances:			
Nonspendable for Inventories	189,534.01		
Restricted for:			
Federal Required Carryover Programs		4,429.02	
Food Service			
State Required Carryover Programs	379,927.51		
Debt Service			
Capital Projects			
Total Restricted Fund Balance	379,927.51	4,429.02	
Assigned for Other Budgetary Items	97,696.38		
Unassigned Fund Balance	2,100,554.21		
Total Fund Balances	2,767,712.11	4,429.02	
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,911,549.42	\$ 856,466.09	\$ 127,170.48

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
<u>\$ 2,660,298.68</u>	<u>\$ 207,799.35</u>	<u>\$ 4,099,535.48</u>
	30,133.10	64,462.59
		39,769.37
		869,433.51
4,668.89	141,908.81	1,799,678.85
		877,581.01
<u>57,565.95</u>	<u>57,565.95</u>	<u>247,099.96</u>
<u>\$ 2,664,967.57</u>	<u>\$ 437,407.21</u>	<u>\$ 7,997,560.77</u>
\$ 53,277.23	\$ 7,791.24	\$ 270.80
	69,709.40	431,330.67
		816,951.27
		51,450.00
		76,238.98
<u>53,277.23</u>	<u>77,500.64</u>	<u>1,376,241.72</u>
		<u>877,581.01</u>
	57,565.95	247,099.96
		4,429.02
	64,408.17	64,408.17
		379,927.51
	30,133.10	30,133.10
2,611,690.34	207,799.35	2,819,489.69
<u>2,611,690.34</u>	<u>302,340.62</u>	<u>3,298,387.49</u>
		97,696.38
		<u>2,100,554.21</u>
2,611,690.34	359,906.57	5,743,738.04
<u>\$ 2,664,967.57</u>	<u>\$ 437,407.21</u>	<u>\$ 7,997,560.77</u>

**GADSDEN 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	\$	5,743,738.04
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		70,136,719.32
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Long-term notes receivable are not available to pay for current period expenditures, and therefore, is reported as unavailable revenue on the governmental fund statements.		877,581.01
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Bonds Payable	\$ 1,080,000.00	
Compensated Absences Payable	2,650,009.41	
Other Postemployment Benefits Payable	3,106,414.00	
		(6,836,423.41)

Net Position - Governmental Activities	\$	69,921,614.96
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The accompanying notes to financial statements are an integral part of this statement.

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**GADSDEN 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	\$ 136,452.36	\$ 2,102,967.66	\$
Federal Through State and Local State	1,005,607.42 29,420,532.26	9,425,740.18	2,521,597.24
Local:			
Property Taxes	8,908,717.57		
Charges for Services - Food Service			
E-Rate Reimbursements	746,665.17		
Miscellaneous	1,071,363.66		
Total Local Revenues	<u>10,726,746.40</u>		
Total Revenues	<u>41,289,338.44</u>	<u>11,528,707.84</u>	<u>2,521,597.24</u>
Expenditures			
Current - Education:			
Instruction	22,748,395.16	4,899,297.31	1,114,942.96
Pupil Personnel Services	1,711,061.27	1,181,660.39	102,334.76
Instructional Media Services	629,841.80	219,269.64	22,015.58
Instruction and Curriculum Development Services	1,036,389.34	1,280,134.59	195,921.13
Instructional Staff Training Services	70,235.72	1,775,650.80	489,110.87
Instruction Related Technology	44,699.95	932,818.33	253,398.91
School Board	478,790.53		
General Administration	521,672.86	267,751.49	54,580.00
School Administration	3,358,050.31	55,425.30	32,581.82
Facilities Acquisition and Construction	88,829.80	17,355.64	
Fiscal Services	457,799.78		
Food Services	12,138.67	2,984.75	
Central Services	414,625.64	107,106.06	61,869.58
Pupil Transportation Services	3,543,083.69	313,363.11	128,068.86
Operation of Plant	5,693,529.75	78,415.35	
Maintenance of Plant	1,490,847.65	7,097.99	
Administrative Technology Services	688,883.78	651.55	
Community Services	325,393.52	46,950.04	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	28,330.00	41,616.94	6,516.00
Other Capital Outlay	84,905.68	301,158.56	60,256.77
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>43,427,504.90</u>	<u>11,528,707.84</u>	<u>2,521,597.24</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,138,166.46)</u>		
Other Financing Sources (Uses)			
Transfers In	1,312,677.66		
Proceeds from Sale of Capital Assets	33,235.10		
Insurance Loss Recoveries	341.14		
Transfers Out			
Total Other Financing Sources (Uses)	<u>1,346,253.90</u>		
Net Change in Fund Balances	<u>(791,912.56)</u>		
Fund Balances, Beginning	3,559,624.67	4,429.02	
Fund Balances, Ending	<u>\$ 2,767,712.11</u>	<u>\$ 4,429.02</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
\$	\$	\$
	3,699,070.09	2,239,420.02
	444,346.78	16,652,014.93
		29,864,879.04
2,148,318.46		11,057,036.03
	153,733.84	153,733.84
		746,665.17
15,415.96	2,229.25	1,089,008.87
<u>2,163,734.42</u>	<u>155,963.09</u>	<u>13,046,443.91</u>
2,163,734.42	4,299,379.96	61,802,757.90
		28,762,635.43
		2,995,056.42
		871,127.02
		2,512,445.06
		2,334,997.39
		1,230,917.19
		478,790.53
		844,004.35
299,595.08	10,522.00	3,446,057.43
		416,302.52
		457,799.78
	4,066,632.91	4,081,756.33
		583,601.28
		3,984,515.66
		5,771,945.10
		1,497,945.64
		689,535.33
		372,343.56
374,059.77	137,169.67	587,692.38
109,433.70		555,754.71
	185,000.00	185,000.00
	65,493.27	65,493.27
<u>783,088.55</u>	<u>4,464,817.85</u>	<u>62,725,716.38</u>
<u>1,380,645.87</u>	<u>(165,437.89)</u>	<u>(922,958.48)</u>
		1,312,677.66
		33,235.10
		341.14
<u>(1,231,855.66)</u>	<u>(80,822.00)</u>	<u>(1,312,677.66)</u>
<u>(1,231,855.66)</u>	<u>(80,822.00)</u>	<u>33,576.24</u>
148,790.21	(246,259.89)	(889,382.24)
<u>2,462,900.13</u>	<u>606,166.46</u>	<u>6,633,120.28</u>
<u>\$ 2,611,690.34</u>	<u>\$ 359,906.57</u>	<u>\$ 5,743,738.04</u>

**GADSDEN 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 \$ (889,382.24)

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 outlay in the current fiscal year. (2,386,703.55)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (28,000.00)

Adjustments to capital assets and associated depreciation are reported in the government-wide financial statements but not in the fund financial statements. 754,165.41

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year. 185,000.00

Notes receivable receipts provide current financial resources to the governmental funds, but issuing notes receivable increases notes receivable in the statement of net position. Notes receivable payments are recorded as revenue in the governmental funds, but the receipt reduces notes receivable in the statement of net position. This is the net amount of notes receivable issued in excess of receipts in the current fiscal year. 180,373.22

In the statement of activities, the cost of compensated absences is measured by the amounts funds, earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year. 171,962.58

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. (321,375.00)

Change in Net Position - Governmental Activities \$ (2,333,959.58)

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 281,365.61
LIABILITIES	
Accounts Payable	\$ 24,351.88
Due to Other Funds	52,482.24
Internal Accounts Payable	204,531.49
Total Liabilities	\$ 281,365.61

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Gadsden County District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation 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 Gadsden County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Gadsden County.

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

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the District's component unit. A separate column is used to emphasize that it is legally separate from the District.

Crossroad Academy Charter School, a division of Community and Economic Development Organization of Gadsden County, Inc., is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter

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

school operates under a charter approved by its sponsor, the Gadsden County District School Board. The charter school is considered to be a component unit of the District because the District is financially accountable for the charter school as the District established the charter school by approval of the charter, which is tantamount to the initial appointment of the charter school, and there is the potential for the charter school to provide specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter school is a public school and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the charter school's audited financial statements for the fiscal year ended June 30, 2013. The audit report is filed in the District's administrative offices.

C. Basis of Presentation: Government-Wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – 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 and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

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

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. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The charter school is accounted for as a not-for-profit organization and utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

F. Assets, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

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

2. Investments

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

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

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

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

3. Inventories

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

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

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

Capital assets are depreciated using the 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	15 - 50 years
Furniture, Fixtures, and Equipment	5 - 7 years
Motor Vehicles	5 - 10 years

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

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

6. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

7. Net Position Flow Assumption

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

8. Fund Balance Flow Assumptions

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

9. 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 District classifies amounts as assigned that are constrained to be used for specified purposes based on actions of the Superintendent and Assistant Superintendent for Business and Finance and not included in other categories. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

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

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

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

3. District Property Taxes

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

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

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

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

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

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

4. Federal Revenue Sources

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting 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. ACCOUNTING CHANGES

A. Governmental Accounting Standards Board Statement No. 61

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the 2012-13 fiscal year. This Statement, in part, modifies certain requirements for inclusion of component units in the financial reporting entity. As the District is required to operate, control, supervise, and fund public schools in the District, including the Crossroad Academy Charter School (Charter School), the Charter School is presented as a discretely presented component unit of the District. However, in prior fiscal years, the Charter School was excluded from the District's reporting entity, affecting the comparability of financial statement amounts reported for the 2012-13 fiscal year with financial statement amounts reported for the 2011-12 fiscal year. Due to the implementation of GASB Statement No. 61, the beginning net position of

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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the component unit column of the Statement of Activities was increased by \$2,990,093 to reflect the beginning balance of the Charter School.

B. GASB Statement No. 63

The District adopted new accounting guidance GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the 2012-13 fiscal year. This statement incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and renamed that measure as net position, rather than net assets, affecting the comparability of financial statement amounts reported for the 2012-13 fiscal year with financial statement amounts reported for the 2011-12 fiscal year.

C. GASB Statement No. 65

The District elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources, or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Accordingly, unavailable revenue for notes receivable are classified as deferred inflow of resources for the 2012-13 fiscal year, affecting the comparability of financial statement amounts reported for the 2012-13 fiscal year with financial statement amounts reported for the 2011-12 fiscal year.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

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

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 440.84
Fund B	3.98 Year Average	34,329.49
Debt Service Accounts	6 Months	30,133.10
Total Investments, Reporting Entity		<u>\$ 64,903.43</u>

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

➤ Interest Rate Risk

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

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

➤ Credit Risk

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

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

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

C. Notes Receivable

The District sold Chattahoochee High School, Havana North Side High School, and Greensboro Elementary School each to a separate not-for-profit corporation, and as part of the sales agreement, the District issued and held interest bearing notes receivable in the amount of the sales price. The first note was for \$500,000, bearing interest at one percent per annum, payable in monthly installments of \$2,299.47 until paid-in-full with the first installment received February 1, 2011. The second note was for \$205,000, bearing interest at one percent per annum, payable in monthly installments of \$942.78 until paid-in-full with the first installment received July 1, 2012. The third note was for \$220,000, bearing interest at one percent per annum, payable in monthly installments of \$1,011.77 until paid-in-full with the first installment due January 1, 2013. At June 30, 2013, the District's remaining notes receivable balance was \$877,581.01.

D. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,772,588.29	\$	\$ 28,000.00	\$ 1,744,588.29
Construction in Progress	41,830.64	13,166.35	41,830.64	13,166.35
Total Capital Assets Not Being Depreciated	1,814,418.93	13,166.35	69,830.64	1,757,754.64
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,571,903.15	61,159.00		4,633,062.15
Buildings and Fixed Equipment	90,697,685.30	555,197.67		91,252,882.97
Furniture, Fixtures, and Equipment	7,120,065.35	720,368.98 (1)	918,298.30	6,922,136.03
Motor Vehicles	7,434,117.79	11,300.00	79,436.00	7,365,981.79
Total Capital Assets Being Depreciated	109,823,771.59	1,348,025.65	997,734.30	110,174,062.94
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,844,300.03	228,595.16		3,072,895.19
Buildings and Fixed Equipment	27,302,061.86	2,151,952.57		29,454,014.43
Furniture, Fixtures, and Equipment	5,412,998.98	687,142.57	1,496,549.44 (2)	4,603,592.11
Motor Vehicles	4,281,572.19	462,460.34	79,436.00	4,664,596.53
Total Accumulated Depreciation	39,840,933.06	3,530,150.64	1,575,985.44	41,795,098.26
Total Capital Assets Being Depreciated, Net	69,982,838.53	(2,182,124.99)	(578,251.14)	68,378,964.68
Governmental Activities Capital Assets, Net	\$ 71,797,257.46	\$ (2,168,958.64)	\$ (508,420.50)	\$ 70,136,719.32

Notes: (1) Includes \$175,914.27 of items that were deleted in prior years that were located and added back to records.

(2) Amount exceeds the deletions to furniture, fixtures, and equipment by \$578,251.14 to correct accumulated depreciation of furniture, fixtures, and equipment.

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Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 388,466.69
Unallocated	<u>3,141,683.95</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,530,150.64</u>

E. 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, death benefits, and annual cost-of-living adjustments.

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

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

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

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$3,129,645.00, \$2,271,098.83, and \$2,246,601.67, respectively, which were equal to the required contributions for each fiscal year.

There were 83 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$204,542.44, 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.

F. Other Postemployment Benefit Obligations

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

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JUNE 30, 2013**

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. Pursuant to Section 112.0801, Florida Statutes, the District contributed towards the cost of healthcare benefits for former employees who retire prior to May 2, 2001. Effective October 1, 2002, the Board decreased its contribution from \$50 to \$30 per month per former retired employees. Premiums totaled \$71,460 for the 2011-12 fiscal year, and the District provide benefits to 141 retired former employees at June 30, 2012. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 164 retirees received other postemployment benefits. The District provided required contributions of \$369,423 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling \$500,757, which represents 2.2 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:

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Description	Amount
Normal Cost (service cost for one year)	\$ 297,980
Amortization of Unfunded Actuarial Accrued Liability	<u>461,923</u>
Annual Required Contribution	759,903
Interest on Net OPEB Obligation	92,387
Adjustment to Annual Required Contribution	<u>(161,492)</u>
Annual OPEB Cost (Expense)	690,798
Contribution Toward the OPEB Cost	<u>(369,423)</u>
Increase in Net OPEB Obligation	321,375
Net OPEB Obligation, Beginning of Year	<u>2,785,039</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,106,414</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	\$ 664,366	51.2%	\$ 2,463,664
2011-12	690,798	53.5%	2,785,039
2012-13	690,798	53.5%	3,106,414

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$6,652,347, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,652,347, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,076,006, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 30.1 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.

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and to estimate the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, projected increases of 4.5 to 8.25 percent and an annual healthcare cost trend rate of 9 percent initially beginning January 1, 2011, reducing to an ultimate rate of 5 percent beginning January 1, 2019. The investment rate of return and projected rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 13 years.

G. 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	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Total Governmental Funds
\$ 97,696	\$ 316,062	\$ 183,534	\$ 1,197,196	\$ 1,794,488

H. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, general liability, buildings and contents, boiler and machinery, errors and omissions, and employee health and hospitalization, life, and dental 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.

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I. Long-Term Liabilities

1. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 1,015,000	5.0	2018
Series 2009A, Refunding	65,000	5.0	2019
Total Bonds Payable	<u>\$ 1,080,000</u>		

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 239,000	\$ 185,000	\$ 54,000
2015	244,750	200,000	44,750
2016	249,750	215,000	34,750
2017	249,000	225,000	24,000
2018	247,750	235,000	12,750
2019	21,000	20,000	1,000
Total State School Bonds	<u>\$ 1,251,250</u>	<u>\$ 1,080,000</u>	<u>\$ 171,250</u>

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

2. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 1,265,000.00	\$	\$ 185,000.00	\$ 1,080,000.00	\$ 185,000.00
Compensated Absences Payable	2,821,971.99	249,079.95	421,042.53	2,650,009.41	600,000.00
Other Postemployment Benefits Payable	2,785,039.00	690,798.00	369,423.00	3,106,414.00	
Total Governmental Activities	<u>\$ 6,872,010.99</u>	<u>\$ 939,877.95</u>	<u>\$ 975,465.53</u>	<u>\$ 6,836,423.41</u>	<u>\$ 785,000.00</u>

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

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.
- **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.

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

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	\$ 869,433.51	\$
Special Revenue:		
Other		683,432.95
Federal Economic Stimulus		63,808.92
Nonmajor Governmental		69,709.40
Fiduciary		52,482.24
Total	<u>\$ 869,433.51</u>	<u>\$ 869,433.51</u>

The interfund balance between the General Fund and Special Revenue – Other, Federal Economic Stimulus Funds, and the nonmajor governmental funds represents temporary borrowing of cash to cover projects that are awaiting reimbursement from other agencies. The interfund balance between the General Fund and Fiduciary Fund represents cash collected by Gadsden Technical Institute during the 2012-13 fiscal year not remitted to the General Fund until the 2013-14 fiscal year.

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

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

Source	Amount
Florida Education Finance Program	\$ 20,970,800.00
Categorical Educational Program - Class Size Reduction	5,946,956.00
Voluntary Prekindergarten Program	825,772.27
Workforce Development Program	817,089.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	295,231.08
Adults with Disabilities	272,048.00
School Recognition	214,841.00
Miscellaneous	522,141.69
Total	<u>\$ 29,864,879.04</u>

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

**GADSDEN 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	5.221	\$ 7,709,748.24
Basic Discretionary Local Effort	0.748	1,104,556.50
Critical Operating Needs	0.250	369,169.95
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,215,019.73
Total	<u>7.719</u>	<u>\$ 11,398,494.42</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	\$ 1,312,677.66	\$
Capital Projects:		
Local Capital Improvement		1,231,855.66
Nonmajor Governmental		80,822.00
Total	<u>\$ 1,312,677.66</u>	<u>\$ 1,312,677.66</u>

The transfers to the General Fund were for maintenance and property casualty insurance premiums paid from the General Fund and reimbursed with the Capital Projects - Local Capital Improvement Fund moneys and charter school capital outlay moneys from a nonmajor capital projects fund.

N. Due From and To Component Unit – Charter School

Pursuant to Section 1013.62 Florida Statutes, the State provides charter school capital outlay proceeds to the District, and the District reimburses the charter school from these proceeds for capital outlay purchases. The charter school reported \$87,933 as due from primary government for this funding; however, the District reported only \$51,450 as due to the charter school (component unit) as the charter school had not claimed reimbursement of the remaining \$36,483. Consequently, the District did not report a corresponding due to component unit for the \$36,483.

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

IV. LITIGATION

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

V. SUBSEQUENT EVENTS

In October 2013, the District received proceeds from the issuance of a sales tax revenue bond totaling \$2,370,000, to be used for construction of a classroom wing at Havana Middle School. The sales tax revenue bond matures in July 2028 and has a fixed interest rate of 3.28 percent.

In October 2013, the District received proceeds from the issuance of a revenue anticipation note (RAN) totaling \$1,725,000, to be used to complete an addition to and the renovation of Havana Middle School. The RAN matures in November 2014, and the District may request an extension for four consecutive years resulting in an amortization period of five years. The RAN has a fixed interest rate of 2.76 percent.

In October 2013, the Board entered into a \$4.8 million guaranteed maximum price contract with a contractor for the construction of a new classroom wing at Havana Middle School.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**GADSDEN 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	\$ 134,399.00	\$ 136,452.36	\$ 136,452.36	\$
Federal Through State and Local State	150,000.00 29,985,215.00	1,000,384.58 29,399,901.99	1,005,607.42 29,420,532.26	5,222.84 20,630.27
Local:				
Property Taxes	8,221,653.00	8,832,232.08	8,908,717.57	76,485.49
E-Rate Reimbursements		746,665.17	746,665.17	
Miscellaneous	361,000.00	630,022.36	1,071,363.66	441,341.30
Total Local Revenues	8,582,653.00	10,208,919.61	10,726,746.40	517,826.79
Total Revenues	38,852,267.00	40,745,658.54	41,289,338.44	543,679.90
Expenditures				
Current - Education:				
Instruction	21,993,258.50	23,126,918.55	22,748,395.16	378,523.39
Pupil Personnel Services	1,643,885.10	1,734,346.79	1,711,061.27	23,285.52
Instructional Media Services	771,029.37	657,417.22	629,841.80	27,575.42
Instruction and Curriculum Development Services	1,035,296.94	1,045,169.36	1,036,389.34	8,780.02
Instructional Staff Training Services	163,420.21	137,583.87	70,235.72	67,348.15
Instruction Related Technology	45,168.31	45,901.87	44,699.95	1,201.92
School Board	581,009.98	490,596.97	478,790.53	11,806.44
General Administration	465,925.60	540,531.58	521,672.86	18,858.72
School Administration	3,240,632.42	3,394,358.71	3,358,050.31	36,308.40
Facilities Acquisition and Construction	135,890.13	141,707.31	88,829.80	52,877.51
Fiscal Services	453,824.93	478,437.35	457,799.78	20,637.57
Food Services		12,138.67	12,138.67	
Central Services	339,755.61	436,433.56	414,625.64	21,807.92
Pupil Transportation Services	3,578,520.97	3,574,771.70	3,543,083.69	31,688.01
Operation of Plant	5,455,737.36	5,745,271.24	5,693,529.75	51,741.49
Maintenance of Plant	1,583,215.33	1,505,054.66	1,490,847.65	14,207.01
Administrative Technology Services	457,536.66	735,474.71	688,883.78	46,590.93
Community Services		333,558.66	325,393.52	8,165.14
Fixed Capital Outlay:				
Facilities Acquisition and Construction		28,330.00	28,330.00	
Other Capital Outlay		84,905.68	84,905.68	
Total Expenditures	41,944,107.42	44,248,908.46	43,427,504.90	821,403.56
Deficiency of Revenues Over Expenditures	(3,091,840.42)	(3,503,249.92)	(2,138,166.46)	1,365,083.46
Other Financing Sources				
Transfers In	900,000.00	1,312,677.66	1,312,677.66	
Proceeds from Sale of Capital Assets			33,235.10	33,235.10
Insurance Loss Recoveries			341.14	341.14
Total Other Financing Sources	900,000.00	1,312,677.66	1,346,253.90	33,576.24
Net Change in Fund Balances	(2,191,840.42)	(2,190,572.26)	(791,912.56)	1,398,659.70
Fund Balances, Beginning	3,844,850.42	3,844,850.42	3,559,624.67	(285,225.75)
Fund Balances, Ending	\$ 1,653,010.00	\$ 1,654,278.16	\$ 2,767,712.11	\$ 1,113,433.95

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)
\$ 818,517.33 7,403,873.62	\$ 2,804,539.49 10,648,709.63	\$ 2,102,967.66 9,425,740.18	\$ (701,571.83) (1,222,969.45)	\$ 3,450,535.00	\$ 3,561,944.80	\$ 2,521,597.24	\$ (1,040,347.56)
8,222,390.95	13,453,249.12	11,528,707.84	(1,924,541.28)	3,450,535.00	3,561,944.80	2,521,597.24	(1,040,347.56)
3,242,567.97 442,407.73 222,357.15 803,249.25 2,084,382.19 141,004.29	5,347,941.44 1,348,932.48 284,909.13 1,519,481.57 2,008,905.78 932,818.33	4,899,297.31 1,181,660.39 219,269.64 1,280,134.59 1,775,650.80 932,818.33	448,644.13 167,272.09 65,639.49 239,346.98 233,254.98	1,882,567.99 255,049.63 66,033.59 2,606.21 700,617.76 185,437.83	1,696,550.05 159,256.65 121,493.39 195,921.13 580,870.58 269,287.56	1,114,942.96 102,334.76 22,015.58 195,921.13 489,110.87 253,398.91	581,607.09 56,921.89 99,477.81 91,759.71 15,888.65
535,298.24 76,763.28	569,825.71 55,425.30 21,448.73	267,751.49 55,425.30 17,355.64	302,074.22 4,093.09	53,842.66 35,718.98 36,573.95	60,143.04 53,227.87 32,208.95	54,580.00 32,581.82	5,563.04 20,646.05 32,208.95
	2,984.75	2,984.75					
86,000.40 418,489.35 55,165.59 935.12 87,500.00 26,270.39	123,286.11 580,319.66 156,948.75 11,857.12 87,500.00 57,888.76	107,106.06 313,363.11 78,415.35 7,097.99 651.55 46,950.04	16,180.05 266,956.55 78,533.40 4,759.13 86,848.45 10,938.72	62,361.30 161,799.55 7,925.55	61,869.58 256,417.68 7,925.55	61,869.58 128,068.86	128,348.82
	41,616.94 301,158.56	41,616.94 301,158.56			6,516.00 60,256.77	6,516.00 60,256.77	
8,222,390.95	13,453,249.12	11,528,707.84	1,924,541.28	3,450,535.00	3,561,944.80	2,521,597.24	1,040,347.56
		4,429.02	4,429.02				
\$ 0.00	\$ 0.00	\$ 4,429.02	\$ 4,429.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date (2)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1), (2) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 29,070,050	\$ 29,070,050	0.0%	\$ 27,912,948	104.1%
October 1, 2010	0	6,652,347	6,652,347	0.0%	22,076,006	30.1%

Note: (1) The District did not obtain an actuarial valuation to support the other postemployment benefits liability at June 30, 2013.

(2) The District's OPEB valuation at October 1, 2010, used the entry age normal cost actuarial method to estimate the actuarial accrued liability as of June 30, 2013.

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

I. BUDGETARY BASIS OF ACCOUNTING

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

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$6,652,347 was significantly lower than the October 1, 2007, liability of \$29,070,050. This decrease was primarily due to a change in approach that excluded retirees age 65 and older from the covered population, which also affected several actuarial assumptions.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	\$ 849,291.16	\$
National School Lunch Program	10.555 (2)(A)	300, 350	2,468,873.38	
Summer Food Service Program for Children	10.559	323	269,145.00	
Total Child Nutrition Cluster			3,587,309.54	
Fresh Fruit and Vegetable Program	10.582	330, 331	122,274.38	
Total United States Department of Agriculture			3,709,583.92	
United States Department of Labor:				
Indirect:				
Tallahassee Community College:				
National Farmworker Jobs Program	17.264	None	269.25	
United States Department of Energy:				
Indirect:				
University of Central Florida:				
ARRA - State Energy Program	81.041 (2)(B)	None	121,507.17	
United States Department of Education:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (4)	262, 263	1,677,066.86	19,978.61
Special Education - Preschool Grants	84.173	266, 267	131,939.30	
Liberty County District School Board:				
Special Education - Grants to States	84.027 (4)	None	1,500.00	
University of South Florida:				
Special Education - Grants to States	84.027 (4)	None	1,500.00	
Total Special Education Cluster			1,812,006.16	19,978.61
TRIO Cluster:				
Florida Agricultural and Mechanical University:				
TRIO - Talent Search	84.044 (5)	None	3,597.50	
Florida State University:				
TRIO - Upward Bound	84.047	None	29,612.25	
Tallahassee Community College:				
TRIO - Talent Search	84.044 (5)	None	7,837.75	
Total TRIO Cluster			41,047.50	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	2,509,155.85	
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,628,130.58	
Total School Improvement Grants Cluster			4,137,286.43	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	4,032.82	
Title I Grants to Local Educational Agencies	84.010	212, 222, 226	3,679,704.75	171,532.12
Career and Technical Education - Basic Grants to States	84.048	161	174,526.13	
Education for Homeless Children and Youth	84.196	127	52,250.00	
Twenty-First Century Community Learning Centers	84.287 (6)	244	627,228.12	
English Language Acquisition Grants	84.365	102	66,434.30	
Improving Teacher Quality State Grants	84.367	224	503,746.57	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (7)	RD211, RG611, RL111, RS 611	893,466.66	
Nova Southeastern University:				
Voluntary Public School Choice	84.361	None	1,202.24	
Tallahassee Community College:				
Twenty-First Century Community Learning Centers	84.287 (6)	None	89,726.00	
Washington County District School Board:				
Migrant Education - State Grant Program	84.011	None	56,341.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (7)	None	4,296.60	
Total United States Department of Education			12,143,295.28	191,510.73

**GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Head Start Cluster:				
Head Start	93.600 (3)	N/A	\$ 2,102,967.66	\$
Corporation for National and Community Service:				
Indirect:				
Tallahassee Community College:				
AmeriCorps	94.006	None	363,130.98	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	136,452.36	
Total Expenditures of Federal Awards			\$ 18,577,206.62	\$ 191,510.73

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

(2) Noncash Assistance:

(A) National School Lunch Program - Includes \$229,303.57 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) ARRA - State Energy Program - Represents the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Head Start. Expenditures include \$868,351.49 for grant number/program year 04CH0241/27 and \$1,234,616.17 for grant number/program year 404CH0241/28.

(4) Special Education - Grants to States. Total CFDA No. 84.027 expenditures are \$1,680,066.86.

(5) TRIO - Talent Search. Total CFDA No. 84.044 expenditures: \$11,435.25.

(6) Twenty-First Century Community Learning Centers. Total CFDA No. 84.287 expenditures are \$716,954.12.

(7) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures are \$897,763.26.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 26, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Gadsden County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the discretely presented component unit auditors. 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 26, 2014



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Special Education Cluster

As described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding CFDA Nos. 84.027 and 84.173 Special Education Cluster Programs as described in Federal Awards Finding No. 1 for Matching, Level of Effort, Earmarking – Maintenance of Effort. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualified Opinion on Special Education Cluster

In our opinion, except for the noncompliance described in the preceding paragraph, 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 Special Education Cluster Programs for the fiscal year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** for the fiscal year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2. Our opinion on this major Federal program is not modified with respect to this matter.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 control 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. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2 to be a significant deficiency.

Management's Response

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 26, 2014

**GADSDEN 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? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major programs: Unmodified for all major programs, except for the Special Education Cluster (CFDA Nos. 84.027 and 84.173), which was qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

CFDA Numbers:

10.553, 10.555, and 10.559

84.027 and 84.173

84.367

84.377 and 84.388

84.395

Name of Federal Program or Cluster:

Child Nutrition Cluster

Special Education Cluster

Improving Teacher Quality State Grants

School Improvement Grants Cluster

ARRA - State Fiscal Stabilization Fund

(SFSF) – Race-to-the-Top Incentive

Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs: \$557,316

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2012-13 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. For example, the District participates in the E-Rate program whereby the District regularly receives rebate reimbursements for certain telecommunication service costs. However, the District did not identify and report a receivable of \$478,406 for anticipated rebate reimbursements from the program, although the District received these reimbursements on August 20, 2013, which is within the 60-day policy period for the District to report revenues for the 2012-13 fiscal year. As a result, the District understated General Fund revenue and unrestricted fund balance by this amount. Misreporting account balances and related transactions such as these may cause financial statement users to incorrectly assess the District's financial position.

We extended our audit procedures to determine the adjustments necessary to properly report these account balances and transactions on the financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2013-167.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

ADDITIONAL MATTERS

Finding No. 2: Other Postemployment Benefits

Generally accepted accounting principles (GAAP) require the District to report an other postemployment benefits (OPEB) liability for its coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. GAAP further require that the District obtain an actuarial valuation of its OPEB plan at least biennially since, at June 30, 2013, its plan had 1,072 plan members, exceeding the minimum 200-member plan requirement for the actuarial study. In addition, according to GAAP, certain Actuarial Standards of Practice (ASOPs) must guide preparation of the actuarial study. For example, Section 3.1.2 of the *Introduction to the Actuarial Standards of Practice, March 2013*, provides, in part, that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon the ASOPs.

Contrary to GAAP, District personnel indicated that they elected to forego the services of a certified actuary as a cost savings measure and did not obtain the required biennial actuarial valuation. Instead, the District elected to report the liability and related note disclosures based on the October 1, 2010, actuarial valuation used for the 2011-12 fiscal year annual financial report. District personnel indicated that the cost of the previous actuarial study was approximately \$8,600. The OPEB expenses and related liability reported were not quantitatively material; however, there is an increased need for the District to obtain the required biennial actuarially-prepared study as the OPEB liability amount increases in future years due to its cumulative nature.

Recommendation: The District should obtain an actuarial valuation of its OPEB plan biennially in accordance with GAAP.

Finding No. 3: Adult General Education Classes

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

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

For the 2012-13 fiscal year, the District reported to the FDOE 22,978 instructional contact hours for 87 students enrolled in 99 adult general education classes. Our review of 4,001 hours reported for 15 students enrolled in 66 adult general education classes disclosed 1,890 hours net hours over-reported for 15 students in 59 classes. District personnel indicated that these reporting errors occurred mainly because District personnel incorrectly recorded student withdrawal dates and hours for certain classes into the student record system. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our report Nos. 2012-149 and 2013-167.

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

Finding No. 4: Information Technology - Disaster Recovery Plan

Disaster recovery planning is an element of information technology (IT) controls established to manage the availability of critical data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide a plan for continuing critical operations in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel, critical applications, provide for backups of critical data sets, and a step-by-step plan for recovery. In addition, plan elements should be tested periodically to

disclose any areas not addressed and to facilitate effective business continuity in the event of an actual disruption of IT operations.

The District participates in the Panhandle Area Educational Consortium (PAEC) and obtains certain IT services, such as financial, payroll, student records, and other critical applications, from the Northwest Regional Data Center (NWRDC). The NWRDC developed an IT disaster recovery plan whereby member districts agreed to serve as alternate-processing sites for each other in the event of a disaster that interrupts critical IT operations. In addition, the District entered into an agreement with a disaster recovery company whereby the company agreed to provide, in the event of any unplanned interruption of critical business and information processing of its student records beyond the District's control, equipment and remote service and support via telephone to a location chosen by the District or to a specified vendor recovery site. However, the District had not established a written comprehensive disaster recovery plan, including the specific processes and procedures to be followed at the District when the NWRDC is inoperable to affect the recovery and restoration of financial, payroll, student records, and other critical applications; prioritization of critical operations and data; and assignment of key employees and backup personnel for recovery activities.

District personnel initially indicated that an independent firm would evaluate its IT operations and, when finalized, the District would implement a comprehensive disaster recovery plan. In March 2013, the firm released its report, which addressed IT organization and staffing, technology planning, infrastructure, and hardware and software needs; however, because the District's IT director position was vacant, a comprehensive disaster recovery plan was not developed.

Without a detailed plan for the District's disaster recovery, there is an increased risk that the District may be unable to continue critical operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations. Similar findings were noted in our report Nos. 2012-149 and 2013-167.

Recommendation: The District should develop a written, comprehensive disaster recovery plan.

Finding No. 5: Information Technology - Security Controls - Logging and Monitoring of Network Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data IT resources. Our audit disclosed that certain District IT security controls related to logging and monitoring of network activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without appropriate security controls related to logging and monitoring of network activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were noted in our report Nos. 2012-149 and 2013-167.

Recommendation: The District should improve IT security controls related to logging and monitoring of network activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: \$224,650

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations (CFR), require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be for certain reasons such as departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

The District did not have procedures to monitor its compliance with the maintenance of effort requirements during the 2012-13 fiscal year, and District records indicated that the State and local expenditures, in total and average per capita, decreased from the 2011-12 fiscal year to the 2012-13 fiscal year resulting in a maintenance of effort shortfall, as shown below:

Source	Fiscal Years		Difference	Amounts
	2011-12	2012-13		
State and Local Expenditures for Special Education Services	\$ 3,697,132	\$ 3,456,032	\$ (241,100)	\$ (241,100)
Full-Time Equivalent (FTE) Enrollment in Special Education	729	736	7	
Average Expended Per Capita (FTE)	\$ 5,072	\$ 4,696	\$ (376)	
Allowance for Decrease in Terminal Leave Payments				16,450
Deficiency in Expenditures of State and Local Resources				<u>\$ (224,650)</u>

After consideration of the \$16,450 decrease in terminal leave payments for special education personnel, the deficiency in maintenance of effort from State and local funds totaled \$224,650, which represents questioned costs subject to disallowance by the grantor. Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding Matching, Level of Effort, Earmarking – Maintenance of Effort that is applicable to the Special Education Cluster programs, our report on the District's compliance with that requirement includes a qualification to that effect.

Recommendation: The District should establish controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with these requirements or restore \$224,650 to the Special Education Cluster programs.

District Contact Person and Title: Sharon Thomas, Director, Exceptional Student Education

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 – ARRA)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$10,278

Period of Availability. Title 34, Section 80.23, CFR, provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period. The District received a Race-to-the-Top grant, totaling approximately \$230,000, with a grant period from July 1, 2012, to June 30, 2013. Expenditures were to be incurred and purchase orders issued no later than June 30, 2013, and accrued expenditures were to be liquidated by August 20, 2013.

Our review of grant expenditures disclosed costs, totaling \$10,278, that were incurred during July and August 2013, which was after the period of availability. District personnel indicated that these expenditures were incurred and liquidated within the period of availability; however, as the District incurred these expenditures after June 30, 2013, these expenditures represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the \$10,278 of questioned costs or restore this amount to the Race-to-the-Top program.

District Contact Person and Title: Kimberly Ferree, Assistant Superintendent for Business and Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2013-167. The following table provides information on District recurring audit findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2013-167, Finding No. 1	NA
3	Audit Report No. 2013-167, Finding No. 3	Audit Report No. 2012-149, Finding No. 3
4	Audit Report No. 2013-167, Finding No. 4	Audit Report No. 2012-149, Finding No. 6
5	Audit Report No. 2013-167, Finding No. 6	Audit Report No. 2012-149, Finding No. 8

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

**GADSDEN 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
2011-163 (5)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) and Improving Teacher Quality (CFDA No. 84.367) - Special Tests and Provisions - Private School Participation	District procedures did not ensure that private schools were provided the opportunity to participate in the Federally-funded programs, resulting in \$31,043.91 of questioned costs in the Title I program.	Corrected.	The grantor reviewed the information provided, determined that corrective measures were taken to resolve the finding, and did not require repayment of questioned costs.
2012-149 (1) 2013-167 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Eligibility, Reporting, and Special Tests and Provisions	District procedures were insufficient to ensure that the meal status of students was accurately assessed and documented in accordance with Federal regulations for the Child Nutrition Cluster programs, resulting in \$1,483 and \$136,720 of questioned costs in the 2010-11 and 2011-12 fiscal years, respectively.	Corrected.	The grantor sustained the findings but did not require the repayment of questioned costs.
2012-149 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility	Title I schoolwide program resources were not properly allocated to two schools, resulting in \$168,708 of questioned costs.	Corrected.	The grantor reviewed the information provided, determined that corrective measures were taken to resolve the finding, and did not require repayment of questioned costs.
2012-149 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Allowable Costs/ Cost Principles	District records did not document the necessity and reasonableness for holding a Title I program conference approximately 140 miles from the District office, resulting in \$27,680 of questioned costs.	Corrected.	The grantor reviewed the information provided, did not sustain the finding of questioned costs, and required no further action.
2012-149 (4) 2013-167 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/ Cost Principles and Procurement	District records did not always evidence review and reconciliation of school food service charges to bid and contract documents before payment for goods and services were made for the Child Nutrition programs, resulting in \$42,342 and \$45,129 of questioned costs in the 2010-11 and 2011-12, respectively.	Corrected.	The grantor sustained the findings but did not require the repayment of questioned costs.
2012-149 (5)	Special Education – Grants to States (CFDA No. 84.027) - Period of Availability	The District charged expenditures to the Special Education program for obligations that were not incurred within the grant period, resulting in \$26,891 of questioned costs.	Corrected.	The grantor reviewed the information provided, determined that corrective measures were taken to resolve the finding, and did not require repayment of questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE

The School Board of Gadsden County



"Building A Brighter Future"

REGINALD C. JAMES
SUPERINTENDENT
OF SCHOOLS

35 MARTIN LUTHER KING, JR. BLVD
QUINCY, FLORIDA 32351
TEL: (850) 627-9651
FAX: (850) 627-2760

February 26, 2014

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

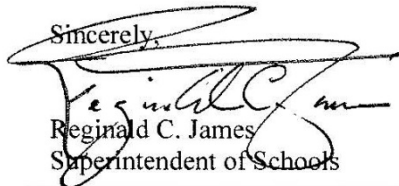
Dear Mr. Martin:

Enclosed please find our responses for the updated preliminary and tentative findings that were provided to us for review on February 18, 2014. We want to express our sincere gratitude to you and your staff for their thorough and comprehensive review of our district's financial, federal, and operational functions for the fiscal year ended June 30, 2013.

The results of the audit provided our staff with valuable input to increase the effectiveness and efficiency of our overall operations for the benefit of the citizens of our county as well as the state. Our staff is dedicated to working to achieve compliance in all the areas noted and we have implemented changes to resolve many of the issues and continue working on resolving others at this present time.

Again, thank you for your review. We look forward to your staff's return to see the implementation of our corrective action plans. If you need additional information or have any questions regarding our responses, please give me a call.

Sincerely,



Reginald C. James
Superintendent of Schools

RCJ:ksf

AUDREY D. LEWIS
DISTRICT NO. 1
HAVANA, FL 32333
MIDWAY, FL 32343

JUDGE B. HELMS, JR.
DISTRICT NO. 2
QUINCY, FL 32351

ISAAC SIMMONS, JR.
DISTRICT NO. 3
GREENSBORO, FL 32330
CHATIAHOCHEE, FL
32324

CHARLIE D. FROST
DISTRICT NO. 4
GRETNA, FL 32332
QUINCY, FL 32351

ROGER P. MILTON
DISTRICT NO. 5
QUINCY, FL 32351

BOARD MEETS FOURTH TUESDAY OF EACH MONTH
EQUAL OPPORTUNITY EMPLOYER

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that account balances and transactions are properly reported on the financial statements.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

District Response:

We concur with the audit finding regarding the E-Rate revenue received. When preparing the annual financial report, we will closely review and scrutinize the end of the year transactions that occur within the 60-day policy period to ensure that revenues received in the subsequent period, which belong to the fiscal year ending on June 30, are properly reported in the accounting period.

ADDITIONAL MATTERS

Finding No. 2: The District did not obtain the required biennial actuarial valuation to support the amount reported as the liability for other postemployment benefits provided by the District.

Recommendation: The District should obtain an actuarial valuation of its OPEB plan biennially in accordance with GAAP.

District Response:

We concur with the audit finding and implemented the following correction actions. We have contacted the actuary and the PAEC consortium to determine the actions the District needs to perform to actively update the District's information for the actuary report. The actuary has provided the District a list of the information needed and the District has obtained that information and provided it back to the actuary and the PAEC consortium. We will obtain the biennial actuarial valuations and the updated annual information, as needed for the actuary update in between the biennially issued actuary report, in order to issue our annual financial statements in accordance with GAAP.

Finding No. 3: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

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

District Response:

We concur with the audit finding and implemented the following corrective actions. The District will strengthen its controls and work diligently to ensure the accuracy of data reporting. New and experienced data personnel are now in place to ensure data accuracy and make any necessary adjustments. Regular attendance at District and State data meetings will take place.

Withdrawal of Adult General Education (AGE) students occurs upon the sixth consecutive absence for adult general education classes or the sixth absence for career and technical classes (only the AGE students dual enrolled in CTE classes) or at any other time the AGE student officially withdraws. The withdrawal is indicated with a "W" on the specified absence. When determined that the student will not attend class at all, official withdrawal is indicated with a "W". Withdrawals must be immediately submitted to the registrar so

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

that the Skyward student record can be updated. The effective withdrawal day in Skyward will be after the last day of attendance in class.

Finding No. 4: The District had not developed a written comprehensive information technology (IT) disaster recovery plan.

Recommendation: The District should develop a written, comprehensive disaster recovery plan.

District Response:

We concur that the District did not have a formal written disaster recovery plan as of June 30, 2013, and has taken the following corrective actions. The District has a written, comprehensive disaster recovery plan currently in draft form. The final draft is due to be completed by April 15, 2014, and will be presented to the Board for approval at the April 22, 2014, Regular School Board meeting.

Finding No. 5: District's IT security controls related to logging and monitoring of network activity needed improvement.

Recommendation: The District should improve IT security controls related to logging and monitoring of network activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

District Response:

We concur with the audit finding and implemented the following corrective actions. On March 3, 2014, the District's IT department performed a test of their network configuration changes to implement a change control report of network access activity. Once the test results were determined to be valid, the District's IT department immediately put the change control monitoring reporting system into production. The IT department has assigned the network coordinator the responsibility of daily review and monitoring of the data from the automated change control report and documenting that process. Any instances of unauthorized attempted access will be immediately addressed and resolved. The IT department has developed a written change control procedure to document the implemented process.

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: The District did not have adequate procedures to monitor its compliance with the Special Education Cluster programs maintenance of effort requirement, resulting in a maintenance of effort shortfall of \$224,650.

Recommendation: The District should establish controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with these requirements or restore \$224,650 to the Special Education Cluster programs.

District Response:

We concur that the District needs to strengthen their procedure to monitor compliance with the Special Education Cluster programs Maintenance of Effort (MOE) as required by law.

The District staff is in the process of forming a task force to review the applicable laws as well as the District's records to determine the following:

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

- Whether the District will ask the Florida Department of Education (FDOE) to seek a waiver or some relief on the payback based on exceptional or uncontrollable circumstances such as the unforeseen declines in financial resources which our county, as well as the State, have experienced during the economic decline and the slow recovery period that is being experienced in rural counties such as Gadsden county.
- A comprehensive review of the District's records regarding Maintenance of Effort to determine whether all of the various factors that can be used in determining the District's MOE for the 2012-13 fiscal period, as allowed by 34 CFR 300.163, are inclusive of any financial support for special education and related services provided by any state agency to the District. This could include:
 - payments by Vocational Rehabilitation to fund job coaching services to special education students pursuant to IEPs;
 - Department of Health psychological counseling costs and mental health services to ESE children according to their IEPs;
 - a determination of whether funds were provided from the Florida State Hospital and Tallahassee Health services for our ESE children;
 - review of whether the District received any grants funds or in kind services from FSU, FAMU, and TCC that were used for our ESE students;
 - a determination of whether ESE services received any workforce education money for services not funded by Federal ESE programs;
 - a determination of whether any in-kind services were procured under partnerships with the health agencies on our campuses that provided services to our ESE children; and
 - a review of the Education Job Fund portion that can be treated as State dollars for the purposes of MOE, etc.
- Work with FDOE on their recalculation and remedies regarding the District's 2012-13 fiscal year MOE. Obtain input regarding the various methodologies used as provided by the FDOE's *Multiple Ways of Calculating MOE* methods presented by FDOE to the Florida School Finance Officer's Association meeting on November 9, 2011 and other pertinent data to assist the District with their future monitoring of the MOE.
- Enhance the future budgetary processes to ensure that MOE requirements are met.
- Consideration on the effect to the MOE as it pertains to 34 CFR 300.204 exceptions for MOE from reductions to expenditures from the preceding year which may have been caused from:
 - voluntary departures by retirement;
 - departures for just cause of ESE or related services personnel, such as the reductions in ESE paraprofessionals, behavior specialists and social workers, ESE teachers, and
 - a review to determine whether the District had terminated costly expenditures for long-term purchases for equipment or maintenance projects; etc.
- Consideration on the effect on the MOE as it pertains to 34 CFR 300-705 subgrants to determine whether the State awarded at least the amount that would have received under section 611 of the Act for the fiscal year 1999, if the State distributed 75 percent of its grant that year or whether it was lower. The effect of LEAs geographic boundaries or administrative responsibility for providing services to ESE children and the base allocation's redistribution among the ESE students in Leon County whose primary residence is in Gadsden County.

Federal Awards Finding No. 2: The District used Race-to-the-Top program funds for expenditures incurred outside the period of availability, resulting in \$10,278 of questioned costs.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

Recommendation: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the \$10,278 of questioned costs or restore this amount to the Race-to-the-Top program.

District Response:

We concur with the audit finding and implemented the following corrective actions. We enhanced our procedures to ensure that we perform adequate due diligence during the grant close out phase to make sure that we properly stop the payroll charges and make other applicable adjustments when liquidating encumbrances and reviewing the grant expenditures prior to filing the final report. We have corrected the payroll charges listed in this finding's questioned cost and await the Letter of Determination regarding the remaining questioned cost portion for the repayment of the unencumbered June 30, 2013 expense that was paid during the close out period.