

**GULF COUNTY  
DISTRICT SCHOOL BOARD**

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**Financial, Operational, and Federal Single  
Audit**

For the Fiscal Year Ended  
June 30, 2014



## BOARD MEMBERS AND SUPERINTENDENT

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

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

Jim Norton, Superintendent

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

The audit team leader was Kimberly Vienneau, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at [dougconner@aud.state.fl.us](mailto:dougconner@aud.state.fl.us) or by telephone at (850) 412-2730.

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**GULF COUNTY DISTRICT SCHOOL BOARD  
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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### ADDITIONAL MATTERS

Finding No. 1: Controls over food service collections could be enhanced.

Finding No. 2: The District did not obtain required background screenings and timely rescreenings for certain noninstructional contractors.

Finding No. 3: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: The District needed to enhance its procedures to verify the eligibility of all dependents covered by the District's health insurance plan.

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 6: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

### Summary of Report on Federal Awards

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

#### Audit Objectives and Scope

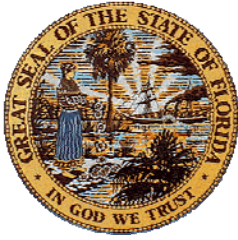
Our audit objectives were to determine whether the Gulf County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2014-055.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2014. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 41 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based solely on the report of the other auditors.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

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

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

### *Opinions*

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Gulf County District School Board as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Supplementary Information*

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

accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

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

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
January 5, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Gulf County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2014. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

### FINANCIAL HIGHLIGHTS

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

- In total, the District's net position decreased by \$1,005,818.77, which represents a 6.4 percent decrease from the 2012-13 fiscal year.
- The General Fund (the primary operating fund) in the fund financial statements reflects expenditures and other financing uses that exceeded revenues and other financing sources by \$10,729.79. This may be compared to last fiscal year's results in which General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$591,115.15.
- General revenues in the government-wide statements account for \$16,887,854.73 of total revenues. Program specific revenues in the form of charges for services, grants, or contributions account for \$976,387.54 of total revenues.
- The District has \$18,870,061.04 in expenses, including \$976,387.54 that is offset by program specific charges for services, grants, or contributions. General revenues, primarily from ad valorem taxes and the Florida Education Finance Program, provided resources for the remaining programs.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-wide Financial Statements

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

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, student personnel services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

## Fund Financial Statements

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

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

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

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

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

The District uses private-purpose trust funds to account for scholarship funds established by private donors and uses agency funds to account for resources held for student activities and groups.

## Notes to Financial Statements

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

## Other Information

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2014, compared to net position as of June 30, 2013:

|                                  | <b>Net Position, End of Year</b> |                         |
|----------------------------------|----------------------------------|-------------------------|
|                                  | Governmental<br>Activities       |                         |
|                                  | 6-30-14                          | 6-30-13                 |
| Current and Other Assets         | \$ 1,519,542.45                  | \$ 1,817,589.92         |
| Capital Assets                   | 16,142,647.92                    | 16,706,517.94           |
| <b>Total Assets</b>              | <b>17,662,190.37</b>             | <b>18,524,107.86</b>    |
| Long-Term Liabilities            | 2,839,055.66                     | 2,697,475.98            |
| Other Liabilities                | 148,752.15                       | 146,430.55              |
| <b>Total Liabilities</b>         | <b>2,987,807.81</b>              | <b>2,843,906.53</b>     |
| Net Position:                    |                                  |                         |
| Net Investment in Capital Assets | 15,772,647.92                    | 16,286,517.94           |
| Restricted                       | 309,230.15                       | 599,833.12              |
| Unrestricted Deficit             | (1,407,495.51)                   | (1,206,149.73)          |
| <b>Total Net Position</b>        | <b>\$ 14,674,382.56</b>          | <b>\$ 15,680,201.33</b> |

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

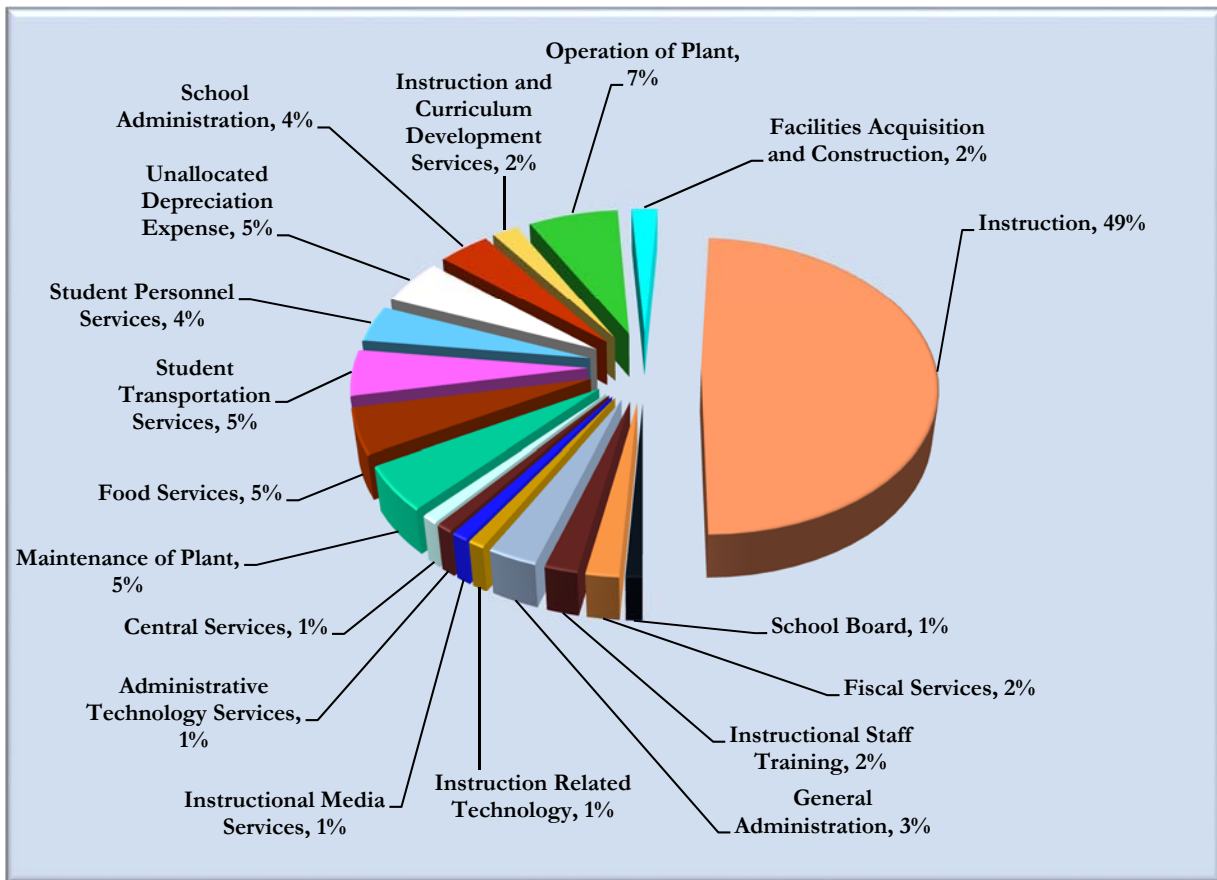
The restricted portion of the District’s net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$1,061,560.15 (after exclusion of \$2,469,055.66 in compensated absences and other postemployment benefits) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

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

| <b>Operating Results for the Fiscal Year Ended</b>              |                            |                         |
|---|----------------------------|-------------------------|
|   | Governmental<br>Activities |                         |
|   | 6-30-14                    | 6-30-13                 |
| <b>Program Revenues:</b>  |                            |                         |
| Charges for Services  | \$ 367,236.36              | \$ 410,977.80           |
| Operating Grants and Contributions                              | 524,206.72                 | 518,349.67              |
| Capital Grants and Contributions                                | 84,944.46                  | 85,656.88               |
| <b>General Revenues:</b>  |                            |                         |
| Property Taxes, Levied for Operational Purposes                 | 8,947,745.45               | 8,984,990.01            |
| Property Taxes, Levied for Capital Projects                     | 602,301.23                 | 545,540.39              |
| Grants and Contributions Not Restricted<br>to Specific Programs | 7,145,986.59               | 6,514,829.82            |
| Unrestricted Investment Earnings                                | 3,332.38                   | 6,205.53                |
| Miscellaneous   | 188,489.08                 | 606,878.11              |
| <b>Total Revenues</b>   | <b>17,864,242.27</b>       | <b>17,673,428.21</b>    |
| <b>Functions/Program Expenses:</b>                              |                            |                         |
| Instruction   | 9,244,072.09               | 9,233,012.99            |
| Student Personnel Services                                      | 807,109.45                 | 789,559.34              |
| Instructional Media Services                                    | 258,686.87                 | 208,561.45              |
| Instruction and Curriculum Development Services                 | 314,640.00                 | 284,428.30              |
| Instructional Staff Training Services                           | 462,804.35                 | 423,693.41              |
| Instruction Related Technology                                  | 66,138.91                  | 61,093.68               |
| School Board  | 189,397.90                 | 162,472.76              |
| General Administration  | 660,603.87                 | 607,166.97              |
| School Administration   | 834,824.86                 | 756,919.59              |
| Facilities Acquisition and Construction                         | 388,661.26                 | 203,115.53              |
| Fiscal Services   | 308,632.80                 | 267,454.48              |
| Food Services   | 924,130.91                 | 983,382.26              |
| Central Services  | 77,773.88                  | 83,496.21               |
| Student Transportation Services                                 | 1,026,229.91               | 917,056.22              |
| Operation of Plant  | 1,398,398.03               | 1,554,051.06            |
| Maintenance of Plant  | 887,410.94                 | 923,715.63              |
| Administrative Technology Services                              | 100,635.72                 | 76,541.35               |
| Unallocated Interest on Long-Term Debt                          | 29,516.97                  | 35,119.75               |
| Unallocated Depreciation Expense                                | 890,392.32                 | 1,029,169.03            |
| <b>Total Functions/Program Expenses</b>                         | <b>18,870,061.04</b>       | <b>18,600,010.01</b>    |
| <b>Change in Net Position</b>                                   | <b>(1,005,818.77)</b>      | <b>(926,581.80)</b>     |
| <b>Net Position - Beginning</b>                                 | <b>15,680,201.33</b>       | <b>16,606,783.13</b>    |
| <b>Net Position - Ending</b>                                    | <b>\$ 14,674,382.56</b>    | <b>\$ 15,680,201.33</b> |

Revenues from local sources for current operations are primarily received through property taxes. Miscellaneous revenues decreased in the current fiscal year because a land donation valued at \$417,000 was included in the prior fiscal year miscellaneous revenue amount. The increase in grants and contributions not restricted to specific programs is related to an increase in Florida Education Finance Program (FEFP) funding of approximately \$600,000.

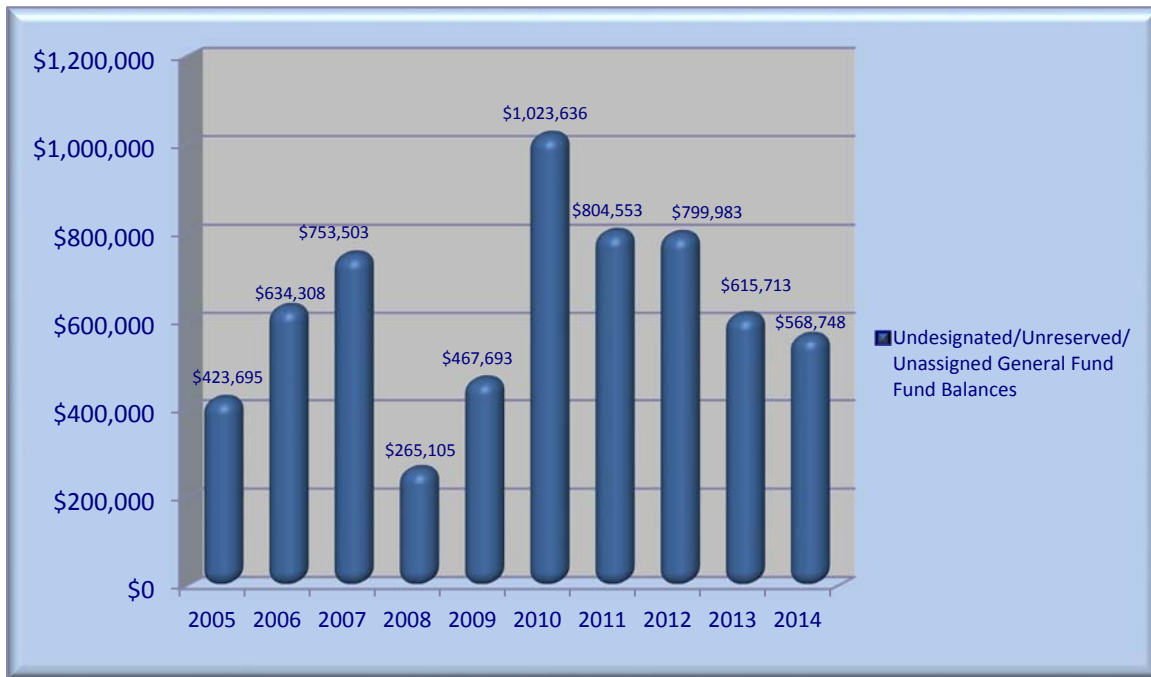
Instruction expenses represent 49 percent of total governmental expenses for the 2013-14 fiscal year. The following graph depicts the distribution of expenses of the District as a whole.



### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

- **General Fund.** The Board has established a provision, in its strategic plan, to provide for an undesignated fund balance at fiscal year-end of 5 percent of FEFP funding. For comparison purposes, unassigned fund balance, implemented by Governmental Accounting Standards Board (GASB) Statement No. 54, is essentially equivalent to the unreserved, undesignated fund balance classification required before GASB Statement No. 54. The following graph shows the undesignated, unreserved/unassigned General Fund fund balances from the 2004-05 through 2013-14 fiscal years. The increase from the 2008-09 fiscal year to the 2009-10 fiscal year was due to the District levying a voted school tax for operating purposes of 1 mill, which was extended through the 2016-17 fiscal year. The decrease in the 2010-11 to 2013-14 fiscal years occurred from lower tax revenues due to lower assessed property values.



During the 2013-14 fiscal year, the General Fund total fund balance decreased \$10,729.79 to \$1,176,344.96. General Fund revenues totaled \$15,004,889.96, which was an increase of \$555,854.84 from the prior fiscal year. The increase in revenue is mainly due to the increase in State revenues. General Fund expenditures totaled \$15,173,911.84.

- **Special Revenue – Federal Economic Stimulus Fund.** The Special Revenue – Federal Economic Stimulus Fund has total revenue and expenditures of \$35,281.97, each. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

**CAPITAL ASSETS AND LONG-TERM DEBT**

**Capital Assets**

The major capital asset project during the current fiscal year was the gym floor replacement at Port St. Joe Elementary School. Additional information on the District’s capital assets can be found in note II.C. to the financial statements.

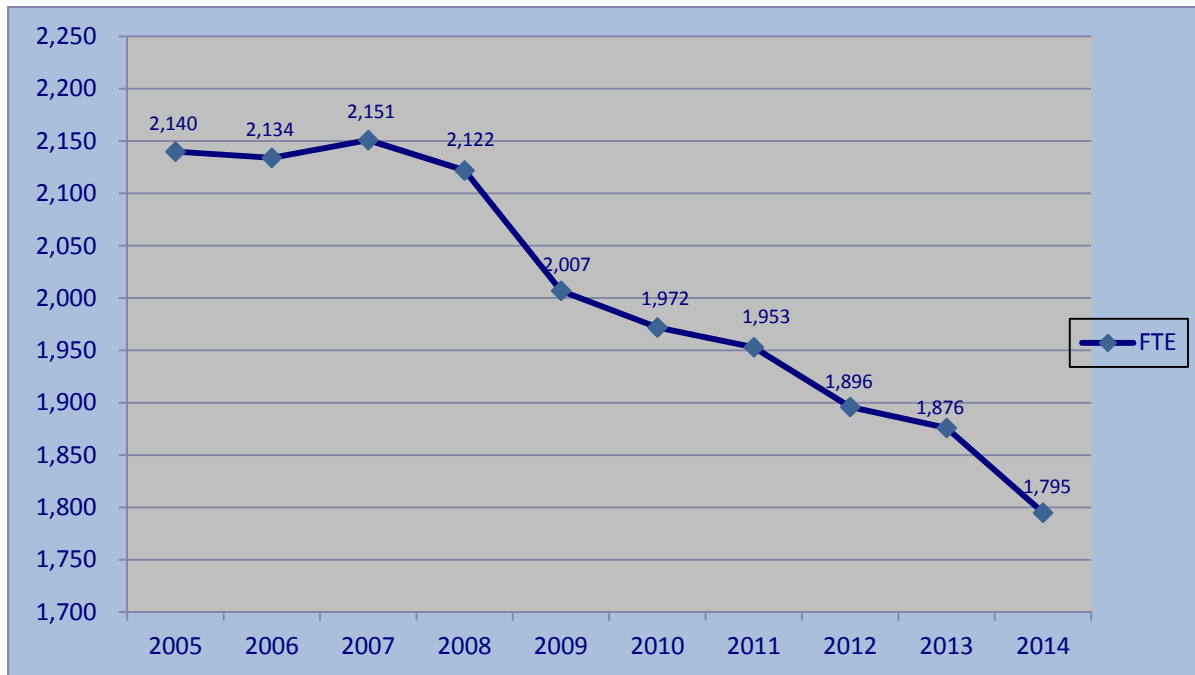
**Long-Term Debt**

The District did not issue any new long-term debt during the 2013-14 fiscal year. At this time, there are no plans for issuing any new debt. Additional information on the District’s long-term debt can be found in note II.H. to the financial statements.

**OTHER MATTERS OF SIGNIFICANCE**

**Student Enrollment and Funding.** Revenues from State sources comprise a significant source of total available resources of the District. Revenues from State sources for current operations are primarily from the FEFP administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. As shown in the following chart, the District continued to experience a

decline in FTE during the 2013-14 fiscal year. FEFP funding increased from the prior fiscal year despite this decrease in FTE, due to an increase in the base FEFP allocation per weighted FTE for the 2013-14 fiscal year.



**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the District’s finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Director of Finance, Gulf County District School Board, 150 Middle School Road, Port St. Joe, FL 32456.

**BASIC FINANCIAL STATEMENTS**

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

|                                     | <u>Governmental<br/>Activities</u> |
|-------------------------------------|------------------------------------|
| <b>ASSETS</b>                       |                                    |
| Cash and Cash Equivalents           | \$ 1,409,600.45                    |
| Investments                         | 10,374.85                          |
| Accounts Receivable                 | 2,961.58                           |
| Due from Other Agencies             | 33,679.52                          |
| Inventories                         | 62,926.05                          |
| Capital Assets:                     |                                    |
| Nondepreciable Capital Assets       | 634,228.47                         |
| Depreciable Capital Assets, Net     | <u>15,508,419.45</u>               |
| <b>TOTAL ASSETS</b>                 | <u>17,662,190.37</u>               |
| <b>LIABILITIES</b>                  |                                    |
| Salaries and Benefits Payable       | 84,078.92                          |
| Payroll Deductions and Withholdings | 63,667.94                          |
| Accounts Payable                    | 5.29                               |
| Due to Other Agencies               | 1,000.00                           |
| Long-Term Liabilities:              |                                    |
| Portion Due Within One Year         | 92,558.73                          |
| Portion Due After One Year          | <u>2,746,496.93</u>                |
| <b>TOTAL LIABILITIES</b>            | <u>2,987,807.81</u>                |
| <b>NET POSITION</b>                 |                                    |
| Net Investment in Capital Assets    | 15,772,647.92                      |
| Restricted for:                     |                                    |
| State Required Carryover Programs   | 114,784.81                         |
| Debt Service                        | 9,558.79                           |
| Capital Projects                    | 159,760.76                         |
| Food Service                        | 25,125.79                          |
| Unrestricted                        | <u>(1,407,495.51)</u>              |
| <b>TOTAL NET POSITION</b>           | <u>\$ 14,674,382.56</u>            |

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

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

| Functions/Programs                              | Expenses                | Program Revenues           |  |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position<br>Governmental<br>Activities |
|---|-------------------------|----------------------------|--|--|--|
|   |                         | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |  |
| <b>Governmental Activities:</b>                 |                         |                            |  |  |  |
| Instruction                                     | \$ 9,244,072.09         | \$ 38,369.80               | \$                                       | \$                                     | \$ (9,205,702.29)  |
| Student Personnel Services                      | 807,109.45              |                            |  |  | (807,109.45)   |
| Instructional Media Services                    | 258,686.87              |                            |  |  | (258,686.87)   |
| Instruction and Curriculum Development Services | 314,640.00              |                            |  |  | (314,640.00)   |
| Instructional Staff Training Services           | 462,804.35              |                            |  |  | (462,804.35)   |
| Instruction Related Technology                  | 66,138.91               |                            |  |  | (66,138.91)  |
| School Board                                    | 189,397.90              |                            |  |  | (189,397.90)   |
| General Administration                          | 660,603.87              |                            |  |  | (660,603.87)   |
| School Administration                           | 834,824.86              |                            |  |  | (834,824.86)   |
| Facilities Acquisition and Construction         | 388,661.26              |                            |  | 15,173.65                              | (373,487.61)   |
| Fiscal Services                                 | 308,632.80              |                            |  |  | (308,632.80)   |
| Food Services                                   | 924,130.91              | 306,950.45                 | 524,206.72                               |  | (92,973.74)  |
| Central Services                                | 77,773.88               |                            |  |  | (77,773.88)  |
| Student Transportation Services                 | 1,026,229.91            | 21,916.11                  |  |  | (1,004,313.80)   |
| Operation of Plant                              | 1,398,398.03            |                            |  |  | (1,398,398.03)   |
| Maintenance of Plant                            | 887,410.94              |                            |  |  | (887,410.94)   |
| Administrative Technology Services              | 100,635.72              |                            |  |  | (100,635.72)   |
| Unallocated Interest on Long-Term Debt          | 29,516.97               |                            |  | 69,770.81                              | 40,253.84  |
| Unallocated Depreciation Expense*               | 890,392.32              |                            |  |  | (890,392.32)   |
| <b>Total Governmental Activities</b>            | <b>\$ 18,870,061.04</b> | <b>\$ 367,236.36</b>       | <b>\$ 524,206.72</b>                     | <b>\$ 84,944.46</b>                    | <b>(17,893,673.50)</b>   |
| General Revenues:                               |                         |                            |  |  |  |
| Taxes:  |                         |                            |  |  |  |
|   |                         |                            |  |  | 8,947,745.45   |
|   |                         |                            |  |  | 602,301.23   |
|   |                         |                            |  |  | 7,145,986.59   |
|   |                         |                            |  |  | 3,332.38   |
|   |                         |                            |  |  | 188,489.08   |
| <b>Total General Revenues</b>                   |                         |                            |  |  | <b>16,887,854.73</b>   |
| <b>Change in Net Position</b>                   |                         |                            |  |  | <b>(1,005,818.77)</b>  |
| Net Position - Beginning                        |                         |                            |  |  | 15,680,201.33  |
| <b>Net Position - Ending</b>                    |                         |                            |  |  | <b>\$ 14,674,382.56</b>  |

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

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

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

|  | General<br>Fund        | Special<br>Revenue -<br>Federal Economic<br>Stimulus Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|------------------------|---|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                        |   |                                |                                |
| Cash and Cash Equivalents                  | \$ 1,247,168.36        | \$  | \$ 162,432.09                  | \$ 1,409,600.45                |
| Investments                                | 685.61                 |   | 9,689.24                       | 10,374.85                      |
| Accounts Receivable                        | 2,961.58               |   |                                | 2,961.58                       |
| Due from Other Agencies                    | 32,943.22              |   | 736.30                         | 33,679.52                      |
| Inventories                                | 40,333.05              |   | 22,593.00                      | 62,926.05                      |
| <b>TOTAL ASSETS</b>                        | <b>\$ 1,324,091.82</b> | <b>\$ 0.00</b>  | <b>\$ 195,450.63</b>           | <b>\$ 1,519,542.45</b>         |
| <b>LIABILITIES AND FUND BALANCES</b>       |                        |   |                                |                                |
| Liabilities:                               |                        |   |                                |                                |
| Salaries and Benefits Payable              | \$ 84,078.92           | \$  | \$                             | \$ 84,078.92                   |
| Payroll Deductions and Withholdings        | 63,667.94              |   |                                | 63,667.94                      |
| Accounts Payable                           |                        |   | 5.29                           | 5.29                           |
| Due to Other Agencies                      |                        |   | 1,000.00                       | 1,000.00                       |
| <b>Total Liabilities</b>                   | <b>147,746.86</b>      |   | <b>1,005.29</b>                | <b>148,752.15</b>              |
| Fund Balances:                             |                        |   |                                |                                |
| Nonspendable:                              |                        |   |                                |                                |
| Inventories                                | 40,333.05              |   | 22,593.00                      | 62,926.05                      |
| Other Not in Spendable Form                | 685.61                 |   | 130.45                         | 816.06                         |
| <b>Total Nonspendable Fund Balance</b>     | <b>41,018.66</b>       |   | <b>22,723.45</b>               | <b>63,742.11</b>               |
| Restricted for:                            |                        |   |                                |                                |
| State Required Carryover Programs          | 114,784.81             |   |                                | 114,784.81                     |
| Debt Service                               |                        |   | 9,558.79                       | 9,558.79                       |
| Capital Projects                           |                        |   | 159,760.76                     | 159,760.76                     |
| Food Service                               |                        |   | 2,402.34                       | 2,402.34                       |
| <b>Total Restricted Fund Balance</b>       | <b>114,784.81</b>      |   | <b>171,721.89</b>              | <b>286,506.70</b>              |
| Assigned for Budget Shortfall              | 451,793.00             |   |                                | 451,793.00                     |
| Unassigned Fund Balance                    | 568,748.49             |   |                                | 568,748.49                     |
| <b>Total Fund Balances</b>                 | <b>1,176,344.96</b>    |   | <b>194,445.34</b>              | <b>1,370,790.30</b>            |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 1,324,091.82</b> | <b>\$ 0.00</b>  | <b>\$ 195,450.63</b>           | <b>\$ 1,519,542.45</b>         |

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

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

**Total Fund Balances - Governmental Funds** \$ 1,370,790.30

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 16,142,647.92

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 year-end consist of:

|                                       |               |                |
|---------------------------------------|---------------|----------------|
| Bonds Payable                         | \$ 370,000.00 |                |
| Compensated Absences Payable          | 1,571,344.66  |                |
| Other Postemployment Benefits Payable | 897,711.00    | (2,839,055.66) |
|                                       |               |                |

**Net Position - Governmental Activities** **\$ 14,674,382.56**

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

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

|   | General<br>Fund        | Special<br>Revenue -<br>Federal Economic<br>Stimulus Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|------------------------|---|--------------------------------|--------------------------------|
| <b>Revenues</b>                                 |                        |   |                                |                                |
| Intergovernmental:                              |                        |   |                                |                                |
| Federal Direct                                  | \$ 59,409.01           | \$  | \$                             | \$ 59,409.01                   |
| Federal Through State and Local                 | 68,787.63              | 35,281.97   | 1,807,587.57                   | 1,911,657.17                   |
| State   | 5,689,189.13           |   | 94,882.46                      | 5,784,071.59                   |
| Local:  |                        |   |                                |                                |
| Property Taxes                                  | 8,947,745.45           |   | 602,301.23                     | 9,550,046.68                   |
| Charges for Services - Food Service             |                        |   | 306,950.45                     | 306,950.45                     |
| Miscellaneous                                   | 239,758.74             |   | 1,015.63                       | 240,774.37                     |
| Total Local Revenues                            | <u>9,187,504.19</u>    |   | <u>910,267.31</u>              | <u>10,097,771.50</u>           |
| <b>Total Revenues</b>                           | <u>15,004,889.96</u>   | <u>35,281.97</u>  | <u>2,812,737.34</u>            | <u>17,852,909.27</u>           |
| <b>Expenditures</b>                             |                        |   |                                |                                |
| Current - Education:                            |                        |   |                                |                                |
| Instruction                                     | 8,295,476.26           |   | 791,334.14                     | 9,086,810.40                   |
| Student Personnel Services                      | 627,131.25             |   | 172,163.77                     | 799,295.02                     |
| Instructional Media Services                    | 252,506.43             |   |                                | 252,506.43                     |
| Instruction and Curriculum Development Services | 172,381.71             |   | 151,474.45                     | 323,856.16                     |
| Instructional Staff Training Services           | 293,738.29             | 14,118.57   | 147,579.13                     | 455,435.99                     |
| Instruction Related Technology                  | 46,992.30              | 18,142.48   |                                | 65,134.78                      |
| School Board                                    | 189,397.90             |   |                                | 189,397.90                     |
| General Administration                          | 632,577.92             |   | 18,521.37                      | 651,099.29                     |
| School Administration                           | 816,674.17             |   |                                | 816,674.17                     |
| Facilities Acquisition and Construction         |                        |   | 417,974.01                     | 417,974.01                     |
| Fiscal Services                                 | 301,175.49             |   |                                | 301,175.49                     |
| Food Services                                   |                        |   | 924,130.91                     | 924,130.91                     |
| Central Services                                | 76,655.25              |   |                                | 76,655.25                      |
| Student Transportation Services                 | 994,889.32             |   | 11,545.99                      | 1,006,435.31                   |
| Operation of Plant                              | 1,397,698.03           |   | 700.00                         | 1,398,398.03                   |
| Maintenance of Plant                            | 873,452.99             |   |                                | 873,452.99                     |
| Administrative Technology Services              | 99,042.12              |   |                                | 99,042.12                      |
| Fixed Capital Outlay:                           |                        |   |                                |                                |
| Facilities Acquisition and Construction         |                        |   | 117,617.15                     | 117,617.15                     |
| Other Capital Outlay                            | 98,468.43              | 3,020.92  | 128,513.62                     | 230,002.97                     |
| Debt Service:                                   |                        |   |                                |                                |
| Principal                                       |                        |   | 50,000.00                      | 50,000.00                      |
| Interest and Fiscal Charges                     | 5,653.98               |   | 23,862.99                      | 29,516.97                      |
| <b>Total Expenditures</b>                       | <u>15,173,911.84</u>   | <u>35,281.97</u>  | <u>2,955,417.53</u>            | <u>18,164,611.34</u>           |
| <b>Deficiency of Revenues Over Expenditures</b> | <u>(169,021.88)</u>    |   | <u>(142,680.19)</u>            | <u>(311,702.07)</u>            |
| <b>Other Financing Sources (Uses)</b>           |                        |   |                                |                                |
| Transfers In                                    | 248,542.09             |   | 92,500.00                      | 341,042.09                     |
| Insurance Loss Recoveries                       | 2,250.00               |   | 9,083.00                       | 11,333.00                      |
| Transfers Out                                   | (92,500.00)            |   | (248,542.09)                   | (341,042.09)                   |
| <b>Total Other Financing Sources (Uses)</b>     | <u>158,292.09</u>      |   | <u>(146,959.09)</u>            | <u>11,333.00</u>               |
| <b>Net Change in Fund Balances</b>              | <u>(10,729.79)</u>     |   | <u>(289,639.28)</u>            | <u>(300,369.07)</u>            |
| Fund Balances, Beginning                        | 1,187,074.75           |   | 484,084.62                     | 1,671,159.37                   |
| <b>Fund Balances, Ending</b>                    | <u>\$ 1,176,344.96</u> | <u>\$ 0.00</u>  | <u>\$ 194,445.34</u>           | <u>\$ 1,370,790.30</u>         |

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

**GULF COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2014**

**Net Change in Fund Balances - Governmental Funds** \$ (300,369.07)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (563,870.02)

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

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the 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 earned in excess of the amount paid in the current fiscal year. (113,740.68)

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. (77,839.00)

**Change in Net Position - Governmental Activities** \$ (1,005,818.77)

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

**GULF COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
June 30, 2014**

|   | Private-Purpose<br>Trust<br>Funds | Agency<br>Funds |
|---|-----------------------------------|-----------------|
| <b>ASSETS</b>   |                                   |                 |
| Cash and Cash Equivalents   | \$ 91,223.42                      | \$ 203,154.00   |
| <b>LIABILITIES</b>  |                                   |                 |
| Internal Accounts Payable   |                                   | \$ 203,154.00   |
| <b>NET POSITION</b>   |                                   |                 |
| Net Position Held in Trust for Scholarships<br>and Other Purposes | \$ 91,223.42                      |                 |

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

**GULF COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
For the Fiscal Year Ended June 30, 2014**

|                               | Private-Purpose<br>Trust<br>Funds |
|-------------------------------|-----------------------------------|
| <b>ADDITIONS</b>              |                                   |
| <b>Contributions:</b>         |                                   |
| Gifts                         | \$ 14,410.00                      |
| <b>Investment Earnings:</b>   |                                   |
| Interest                      | 173.23                            |
| <b>Total Additions</b>        | 14,583.23                         |
| <b>DEDUCTIONS</b>             |                                   |
| Scholarship Payments          | 4,500.00                          |
| <b>Change in Net Position</b> | 10,083.23                         |
| Net Position - Beginning      | 81,140.19                         |
| <b>Net Position - Ending</b>  | \$ 91,223.42                      |

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

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-wide Financial Statements**

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

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

**B. Reporting Entity**

The Gulf County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The 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 Gulf County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on these criteria, no component units are included within the District's reporting entity.

**C. Basis of Presentation: Government-wide Financial Statements**

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

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

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

**D. Basis of Presentation: Fund Financial Statements**

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the George G. Tapper Scholarship Fund, Herman R. Dean Scholarship Fund, Marilyn Witten Scholarship Fund, James Lamar Faison Scholarship Fund, Marion “Coach” Craig Memorial Scholarship Fund, Margaret K. Biggs Scholarship Fund, and the Paul and Marlene Sewell Scholarship Fund.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

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

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

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

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

**1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, 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

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

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 1.84438408 at June 30, 2014. 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 last invoice, which approximates the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

**4. Capital Assets**

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

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

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

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

**5. Long-Term Liabilities**

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

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

**6. Net Position Flow Assumption**

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

**7. Fund Balance Flow Assumptions**

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

**8. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish

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limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by approval of the annual financial report, authorized the assignment of fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding 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.

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

The Board adopted the 2013 tax levy on September 9, 2013. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

**4. Federal Revenue Sources**

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

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DISTRICT SCHOOL BOARD  
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JUNE 30, 2014**

**5. Compensated Absences**

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

**II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

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

**B. Investments**

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

| <u>Investments</u>    | <u>Maturities</u> | <u>Fair Value</u>      |
|-----------------------|-------------------|------------------------|
| SBA:                  |                   |                        |
| Florida PRIME (1)     | 40 Day Average    | \$ 1,206,064.34        |
| Fund B                | 2.86 Year Average | 816.06                 |
| Debt Service Accounts | 6 Months          | 9,558.79               |
| Total Investments     |                   | <u>\$ 1,216,439.19</u> |

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

➤ Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. 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, 2014, is estimated at 2.86 years. However,

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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 limits investments to bids from qualified public depositories, as defined in Section 280.02, Florida Statutes; time deposits; securities of the United States Government; State managed cooperative investment plans; and other forms of investments as authorized by Section 218.415, Florida Statutes.

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

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

**C. Changes in Capital Assets**

Changes in capital assets are presented in the table below:

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|  | Beginning<br>Balance    | Additions              | Deletions         | Ending<br>Balance       |
|--|-------------------------|------------------------|-------------------|-------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                     |                         |                        |                   |                         |
| Capital Assets Not Being Depreciated:              |                         |                        |                   |                         |
| Land   | \$ 510,006.47           | \$                     | \$                | \$ 510,006.47           |
| Land Improvements                                  | 124,222.00              |                        |                   | 124,222.00              |
| <b>Total Capital Assets Not Being Depreciated</b>  | <b>634,228.47</b>       |                        |                   | <b>634,228.47</b>       |
| Capital Assets Being Depreciated:                  |                         |                        |                   |                         |
| Improvements Other Than Buildings                  | 1,231,032.87            |                        |                   | 1,231,032.87            |
| Buildings and Fixed Equipment                      | 22,811,885.13           | 117,617.15             |                   | 22,929,502.28           |
| Furniture, Fixtures, and Equipment                 | 4,132,944.59            | 203,633.96             | 353,609.60        | 3,982,968.95            |
| Motor Vehicles                                     | 2,102,327.49            | 36,861.76              | 105,055.00        | 2,034,134.25            |
| Audio Visual Materials and<br>Computer Software    | 449,739.40              | 18,820.00              |                   | 468,559.40              |
| <b>Total Capital Assets Being Depreciated</b>      | <b>30,727,929.48</b>    | <b>376,932.87</b>      | <b>458,664.60</b> | <b>30,646,197.75</b>    |
| Less Accumulated Depreciation for:                 |                         |                        |                   |                         |
| Improvements Other Than Buildings                  | 539,051.80              | 29,755.19              |                   | 568,806.99              |
| Buildings and Fixed Equipment                      | 10,759,802.04           | 538,162.51             |                   | 11,297,964.55           |
| Furniture, Fixtures, and Equipment                 | 1,205,444.50            | 316,462.76             | 353,609.60        | 1,168,297.66            |
| Motor Vehicles                                     | 1,731,661.57            | 50,410.57              | 105,055.00        | 1,677,017.14            |
| Audio Visual Materials and<br>Computer Software    | 419,680.10              | 6,011.86               |                   | 425,691.96              |
| <b>Total Accumulated Depreciation</b>              | <b>14,655,640.01</b>    | <b>940,802.89</b>      | <b>458,664.60</b> | <b>15,137,778.30</b>    |
| <b>Total Capital Assets Being Depreciated, Net</b> | <b>16,072,289.47</b>    | <b>(563,870.02)</b>    |                   | <b>15,508,419.45</b>    |
| <b>Governmental Activities Capital Assets, Net</b> | <b>\$ 16,706,517.94</b> | <b>\$ (563,870.02)</b> | <b>\$ 0.00</b>    | <b>\$ 16,142,647.92</b> |

Depreciation expense was charged to functions as follows:

| Function  | Amount              |
|---|---------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                              |                     |
| Student Transportation Services                             | \$ 50,410.57        |
| Unallocated   | 890,392.32          |
| <b>Total Depreciation Expense - Governmental Activities</b> | <b>\$940,802.89</b> |

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**D. Florida Retirement System**

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and 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 by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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

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

Notes: (A) Employer rates include 1.20 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions including employee contributions for the fiscal year ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$692,668.95, \$717,303.17, and \$970,314.88, respectively, which were equal to the required contributions for each fiscal year.

There were 29 District participants in the Investment Plan during the 2013-14 fiscal year. The District’s contributions including employee contributions to the Investment Plan totaled \$117,174.97, which was equal to the required contribution for the 2013-14 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department’s Web site ([www.myfloridacfo.com](http://www.myfloridacfo.com)). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at [rep@dms.myflorida.com](mailto:rep@dms.myflorida.com); or at the Division’s Web site ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

**E. Other Postemployment Benefit Obligations**

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

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

**Funding Policy.** Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 120 retirees received other postemployment benefits. The District provided required contributions of \$154,392 toward the annual OPEB cost, net of retiree contributions totaling \$224,742, which represents 2.98 percent of covered payroll.

**Annual OPEB Cost and Net OPEB Obligation.** The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 20 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

| <u>Description</u>                                      | <u>Amount</u>            |
|---|--------------------------|
| Normal Cost (service cost for one year)                 | \$ 93,830                |
| Amortization of Unfunded Actuarial<br>Accrued Liability | <u>156,073</u>           |
| Annual Required Contribution                            | 249,903                  |
| Interest on Net OPEB Obligation                         | 27,876                   |
| Adjustment to Annual Required Contribution              | <u>(45,548)</u>          |
| Annual OPEB Cost (Expense)                              | 232,231                  |
| Contribution Toward the OPEB Cost                       | <u>(154,392)</u>         |
| Change in Net OPEB Obligation                           | 77,839                   |
| Net OPEB Obligation, Beginning of Year                  | <u>819,872</u>           |
| Net OPEB Obligation, End of Year                        | <u><u>\$ 897,711</u></u> |

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The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2014, and the two preceding fiscal years, were as follows:

| Fiscal Year | Annual<br>OPEB Cost | Percentage of<br>Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|-------------|---------------------|---|------------------------|
| 2011-12     | \$ 231,023          | 45.58%  | \$ 739,080             |
| 2012-13     | 223,599             | 63.87%  | 819,872                |
| 2013-14     | 232,231             | 66.48%  | 897,711                |

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

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

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

The District’s OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the District’s 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.4 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.4 percent per year, projected salary increases of 4.0 to 8.375 percent, and an annual healthcare cost trend rate of 8.0 percent beginning January 2014 plan year, reduced to an ultimate rate of 5.45 percent beginning January 2020. The investment rate of return and projected salary increase rate include a general

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price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20 year period. The remaining amortization period at June 30, 2014, was 16 years.

**F. Risk Management Programs**

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

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

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

**G. Changes in Short-Term Debt**

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

|                         | Beginning<br>Balance | Additions    | Deductions   | Ending<br>Balance |
|-------------------------|----------------------|--------------|--------------|-------------------|
| GOVERNMENTAL ACTIVITIES |                      |              |              |                   |
| Tax Anticipation Note   | \$ 0                 | \$ 1,750,000 | \$ 1,750,000 | \$ 0              |

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

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**H. Long-Term Liabilities**

**1. Bonds Payable**

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

| Bond Type               | Amount<br>Outstanding | Interest<br>Rates<br>(Percent) | Annual<br>Maturity<br>To |
|-------------------------|-----------------------|--------------------------------|--------------------------|
| State School Bonds:     |                       |                                |                          |
| Series 2005B, Refunding | \$ 370,000            | 5.0                            | 2020                     |

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

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

| Fiscal Year<br>Ending<br>June 30 | Total             | Principal         | Interest         |
|----------------------------------|-------------------|-------------------|------------------|
| State School Bonds:              |                   |                   |                  |
| 2015                             | \$ 73,500         | \$ 55,000         | \$ 18,500        |
| 2016                             | 70,750            | 55,000            | 15,750           |
| 2017                             | 73,000            | 60,000            | 13,000           |
| 2018                             | 75,000            | 65,000            | 10,000           |
| 2019                             | 71,750            | 65,000            | 6,750            |
| 2020                             | 73,500            | 70,000            | 3,500            |
| Total State School Bonds         | <u>\$ 437,500</u> | <u>\$ 370,000</u> | <u>\$ 67,500</u> |

**2. Changes in Long-Term Liabilities**

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

| Description                           | Beginning<br>Balance   | Additions            | Deductions           | Ending<br>Balance      | Due In<br>One Year  |
|---------------------------------------|------------------------|----------------------|----------------------|------------------------|---------------------|
| GOVERNMENTAL ACTIVITIES               |                        |                      |                      |                        |                     |
| Bonds Payable                         | \$ 420,000.00          | \$                   | \$ 50,000.00         | \$ 370,000.00          | \$ 55,000.00        |
| Compensated Absences Payable          | 1,457,603.98           | 216,553.63           | 102,812.95           | 1,571,344.66           | 37,558.73           |
| Other Postemployment Benefits Payable | 819,872.00             | 232,231.00           | 154,392.00           | 897,711.00             |                     |
| Total Governmental Activities         | <u>\$ 2,697,475.98</u> | <u>\$ 448,784.63</u> | <u>\$ 307,204.95</u> | <u>\$ 2,839,055.66</u> | <u>\$ 92,558.73</u> |

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

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

**I. Fund Balance Reporting**

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

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

**J. Revenues and Expenditures/Expenses**

**1. Schedule of State Revenue Sources**

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

| <u>Source</u>   | <u>Amount</u>          |
|---|------------------------|
| Florida Education Finance Program                           | \$ 3,026,706.00        |
| Categorical Educational Program - Class Size Reduction      | 1,919,536.00           |
| Workforce Development Program                               | 141,731.00             |
| Voluntary Prekindergarten Program                           | 141,279.80             |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 86,232.45              |
| School Recognition  | 49,982.00              |
| Adults with Disabilities                                    | 42,500.00              |
| Food Service Supplement                                     | 9,938.00               |
| Miscellaneous   | 366,166.34             |
| <b>Total</b>  | <b>\$ 5,784,071.59</b> |

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

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

**2. Property Taxes**

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

| GENERAL FUND                     | Millages | Taxes Levied    |
|----------------------------------|----------|-----------------|
| Nonvoted School Tax:             |          |                 |
| Required Local Effort            | 4.867    | \$ 6,814,943.93 |
| Prior Period Funding Adjustment  | 0.003    | 4,200.71        |
| Basic Discretionary Local Effort | 0.748    | 1,047,375.81    |
| Voted School Tax:                |          |                 |
| Additional Operating             | 1.000    | 1,400,235.04    |
| <u>CAPITAL PROJECTS FUNDS</u>    |          |                 |
| Nonvoted Tax:                    |          |                 |
| Local Capital Improvements       | 0.445    | 623,104.59      |
| Total                            | 7.063    | \$ 9,889,860.08 |

**K. Interfund Transfers**

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

| Funds                 | Interfund     |               |
|-----------------------|---------------|---------------|
|                       | Transfers In  | Transfers Out |
| Major:                |               |               |
| General               | \$ 248,542.09 | \$ 92,500.00  |
| Nonmajor Governmental | 92,500.00     | 248,542.09    |
| Total                 | \$ 341,042.09 | \$ 341,042.09 |

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

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**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

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

|   | General Fund         |                      |                        |  |
|---|----------------------|----------------------|------------------------|--|
|   | Original Budget      | Final Budget         | Actual                 | Variance with Final Budget - Positive (Negative) |
| <b>Revenues</b>                                 |                      |                      |                        |  |
| Intergovernmental:                              |                      |                      |                        |  |
| Federal Direct                                  | \$ 60,000.00         | \$ 60,000.00         | \$ 59,409.01           | \$ (590.99)                                      |
| Federal Through State and Local                 | 25,000.00            | 60,000.00            | 68,787.63              | 8,787.63   |
| State   | 6,017,743.00         | 5,669,885.56         | 5,689,189.13           | 19,303.57  |
| Local:  |                      |                      |                        |  |
| Property Taxes                                  | 8,912,135.00         | 8,912,135.00         | 8,947,745.45           | 35,610.45  |
| Miscellaneous                                   | 224,000.00           | 224,500.00           | 239,758.74             | 15,258.74  |
| Total Local Revenues                            | <u>9,136,135.00</u>  | <u>9,136,635.00</u>  | <u>9,187,504.19</u>    | <u>50,869.19</u>                                 |
| <b>Total Revenues</b>                           | <u>15,238,878.00</u> | <u>14,926,520.56</u> | <u>15,004,889.96</u>   | <u>78,369.40</u>                                 |
| <b>Expenditures</b>                             |                      |                      |                        |  |
| Current - Education:                            |                      |                      |                        |  |
| Instruction                                     | 8,831,280.92         | 8,571,164.61         | 8,295,476.26           | 275,688.35                                       |
| Student Personnel Services                      | 635,294.00           | 634,969.46           | 627,131.25             | 7,838.21   |
| Instructional Media Services                    | 255,288.04           | 255,668.04           | 252,506.43             | 3,161.61   |
| Instruction and Curriculum Development Services | 170,447.00           | 175,418.00           | 172,381.71             | 3,036.29   |
| Instructional Staff Training Services           | 279,880.00           | 301,986.00           | 293,738.29             | 8,247.71   |
| Instruction Related Technology                  | 39,159.00            | 47,893.56            | 46,992.30              | 901.26   |
| School Board                                    | 187,217.00           | 191,653.00           | 189,397.90             | 2,255.10   |
| General Administration                          | 628,853.00           | 637,304.00           | 632,577.92             | 4,726.08   |
| School Administration                           | 787,668.00           | 824,425.00           | 816,674.17             | 7,750.83   |
| Fiscal Services                                 | 298,608.00           | 301,957.00           | 301,175.49             | 781.51   |
| Central Services                                | 79,492.00            | 76,892.00            | 76,655.25              | 236.75   |
| Student Transportation Services                 | 1,084,083.00         | 1,018,386.00         | 994,889.32             | 23,496.68  |
| Operation of Plant                              | 1,509,147.00         | 1,404,862.00         | 1,397,698.03           | 7,163.97   |
| Maintenance of Plant                            | 1,017,738.00         | 936,613.17           | 873,452.99             | 63,160.18  |
| Administrative Technology Services              | 81,594.00            | 107,054.25           | 99,042.12              | 8,012.13   |
| Fixed Capital Outlay:                           |                      |                      |                        |  |
| Other Capital Outlay                            |                      | 98,468.43            | 98,468.43              |  |
| Debt Service:                                   |                      |                      |                        |  |
| Interest and Fiscal Charges                     | 8,735.00             | 8,735.00             | 5,653.98               | 3,081.02   |
| <b>Total Expenditures</b>                       | <u>15,894,483.96</u> | <u>15,593,449.52</u> | <u>15,173,911.84</u>   | <u>419,537.68</u>                                |
| <b>Deficiency of Revenues Over Expenditures</b> | <u>(655,605.96)</u>  | <u>(666,928.96)</u>  | <u>(169,021.88)</u>    | <u>497,907.08</u>                                |
| <b>Other Financing Sources (Uses)</b>           |                      |                      |                        |  |
| Transfers In                                    | 249,638.53           | 280,374.19           | 248,542.09             | (31,832.10)                                      |
| Insurance Loss Recoveries                       |                      |                      | 2,250.00               | 2,250.00   |
| Transfers Out                                   | (75,000.00)          | (93,200.00)          | (92,500.00)            | 700.00   |
| <b>Total Other Financing Sources</b>            | <u>174,638.53</u>    | <u>187,174.19</u>    | <u>158,292.09</u>      | <u>(28,882.10)</u>                               |
| <b>Net Change in Fund Balances</b>              | <u>(480,967.43)</u>  | <u>(479,754.77)</u>  | <u>(10,729.79)</u>     | <u>469,024.98</u>                                |
| Fund Balances, Beginning                        | 1,187,074.75         | 1,187,074.75         | 1,187,074.75           |  |
| <b>Fund Balances, Ending</b>                    | <u>\$ 706,107.32</u> | <u>\$ 707,319.98</u> | <u>\$ 1,176,344.96</u> | <u>\$ 469,024.98</u>                             |

| Special Revenue - Federal Economic Stimulus Fund |                  |                  |  |
|--|------------------|------------------|--|
| Original Budget                                  | Final Budget     | Actual           | Variance with Final Budget - Positive (Negative) |
| \$ 43,156.18                                     | \$ 46,482.97     | \$ 35,281.97     | \$ (11,201.00)                                   |
| <u>43,156.18</u>                                 | <u>46,482.97</u> | <u>35,281.97</u> | <u>(11,201.00)</u>                               |
| 20,068.00  | 23,394.79        | 14,118.57        | 9,276.22   |
| 23,088.18  | 20,067.26        | 18,142.48        | 1,924.78   |
|  | 3,020.92         | 3,020.92         |  |
| <u>43,156.18</u>                                 | <u>46,482.97</u> | <u>35,281.97</u> | <u>11,201.00</u>                                 |
| <u>\$ 0.00</u>                                   | <u>\$ 0.00</u>   | <u>\$ 0.00</u>   | <u>\$ 0.00</u>                                   |

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

| Actuarial<br>Valuation<br>Date | Actuarial Value<br>of Assets<br><br>(A) | Actuarial<br>Accrued<br>Liability (AAL) - (1)<br><br>(B) | Unfunded<br>AAL (UAAL)<br><br>(B-A) | Funded Ratio<br><br>(A/B) | Covered Payroll<br><br>(C) | UAAL as a<br>Percentage of<br>Covered Payroll<br><br>[(B-A)/C] |
|--------------------------------|---|--|-------------------------------------|---------------------------|----------------------------|--|
| October 1, 2007                | \$ 0                                    | \$ 5,640,386   | \$ 5,640,386                        | 0.0%                      | \$ 8,958,328               | 62.96%   |
| October 1, 2010                | 0                                       | 2,761,798  | 2,761,798                           | 0.0%                      | 7,994,744                  | 34.55%   |
| October 1, 2012                | 0                                       | 2,671,884  | 2,671,884                           | 0.0%                      | 7,549,515                  | 35.39%   |

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

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

**I. BUDGETARY BASIS OF ACCOUNTING**

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

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

| Federal Grantor/Pass-Through Grantor/Program Title   | Catalog of<br>Federal<br>Domestic<br>Assistance<br>Number | Pass -<br>Through<br>Grantor<br>Number | Amount of<br>Expenditures<br>(1) |
|--|---|--|----------------------------------|
| <b>United States Department of Agriculture:</b>  |   |  |                                  |
| Indirect:  |   |  |                                  |
| Child Nutrition Cluster:   |   |  |                                  |
| Florida Department of Agriculture and Consumer Services:                                       |   |  |                                  |
| School Breakfast Program   | 10.553  | 13002                                  | \$ 112,501.71                    |
| National School Lunch Program  | 10.555 (2)  | 13001, 13003                           | 414,264.14                       |
| <b>Total United States Department of Agriculture</b>   |   |  | <b>526,765.85</b>                |
| <b>United States Department of Education:</b>  |   |  |                                  |
| Indirect:  |   |  |                                  |
| Special Education Cluster:   |   |  |                                  |
| Florida Department of Education:   |   |  |                                  |
| Special Education - Grants to States   | 84.027 (3)  | 263                                    | 445,467.47                       |
| Special Education - Preschool Grants   | 84.173  | 267                                    | 22,809.54                        |
| Putnam County District School Board:   |   |  |                                  |
| Special Education - Grants to States   | 84.027 (3)  | None                                   | 1,632.82                         |
| <b>Total Special Education Cluster</b>   |   |  | <b>469,909.83</b>                |
| Florida Department of Education:   |   |  |                                  |
| Adult Education - Basic Grants to States   | 84.002  | 191                                    | 53,899.64                        |
| Title I Grants to Local Educational Agencies   | 84.010  | 212                                    | 480,184.67                       |
| Career and Technical Education - Basic Grants to States  | 84.048  | 161                                    | 55,273.82                        |
| Twenty-First Century Community Learning Centers  | 84.287  | 244                                    | 82,696.70                        |
| Rural Education  | 84.358  | 110                                    | 46,197.91                        |
| Improving Teacher Quality State Grants   | 84.367  | 224                                    | 106,789.10                       |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 (4)  | RD211, RG311, RG411                    | 35,281.97                        |
| Washington County District School Board:   |   |  |                                  |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 (4)  | None                                   | 550.58                           |
| <b>Total United States Department of Education</b>   |   |  | <b>1,330,784.22</b>              |
| <b>United States Department of Defense:</b>  |   |  |                                  |
| Direct:  |   |  |                                  |
| Navy Junior Reserve Officers Training Corps  | None  | N/A                                    | 59,409.01                        |
| <b>Total Expenditures of Federal Awards</b>  |   |  | <b>\$ 1,916,959.08</b>           |

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance - National School Lunch Program. Includes \$37,065.74 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (3) Special Education - Grants to States. Total CFDA No. 84.027 expenditures: \$447,100.29.
- (4) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act - Total CFDA No. 84.395 expenditures: \$35,832.55.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

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

### Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 5, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, as described in our report on the District's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

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

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

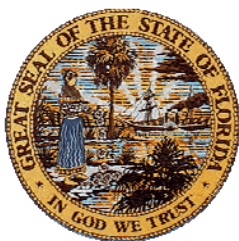
### **Purpose of this Report**

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

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
January 5, 2015



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

### Report on Compliance for Each Major Federal Program

We have audited the Gulf County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

#### *Management's Responsibility*

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

#### *Auditor's Responsibility*

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

### **Purpose of this Report**

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

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
January 5, 2015

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

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

**Federal Awards**

|   |   |
|---|---|
| Internal control over major programs:   |   |
| Material weakness(es) identified?   | No  |
| Significant deficiency(ies) identified?   | None reported                                   |
| Type of auditor's report issued on compliance for major programs:   | Unmodified                                      |
| Any audit findings disclosed that are required to be reported<br>in accordance with Section 510(a) of OMB Circular A-133? | No  |
| Identification of major programs:   |   |
| CFDA Numbers:   | Name of Federal Program or Cluster:             |
| 10.553 and 10.555   | Child Nutrition Cluster                         |
| 84.010  | Title I Grants to Local Educational<br>Agencies |
| Dollar threshold used to distinguish between<br>Type A and Type B programs:   | \$300,000                                       |
| Auditee qualified as low-risk auditee?  | Yes   |

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

**ADDITIONAL MATTERS**

**Finding No. 1: Cash and Collections Revenues – Food Service**

During the 2013-14 fiscal year, the District generally accounted for food service collections using a point-of-sale system and reported collections totaling \$306,950, of which \$43,180 was collected at Wewahitchka High School. Although controls over food service collections were generally adequate, we noted certain improvements could be made at Wewahitchka High School, as follows:

- School personnel did not initially record each food service sale in the point-of-sale system. For example, personnel separately accounted for tea sales and meal sales of students who charged meals in excess of two charges without initially recording the sales in the system. Due in part to these control deficiencies, the school reported approximately \$13,000 more than accounted for using the point-of-sale system, and alternative control procedures, such as independent inventory controls, were not in place to account for these sales. Under these conditions, there is an increased risk of a loss of collections without timely detection.
- Three cashiers operated two point-of-sale system registers using one user identification number and collections were transferred between employees without written acknowledgement to establish responsibility for the transfers. Without separate identification numbers for each cashier and transfer receipts, the District may be limited in its ability to effectively fix responsibility should a loss of collections occur.
- The school did not always keep daily cash collections in a secure location. Cash collections awaiting deposit are more susceptible to theft when stored in unsecure locations.

District personnel indicated the above control deficiencies occurred, in part, because of turnover in the position that monitors the food service program.

**Recommendation: The District should enhance food service controls to include use of the point-of-sale register, or appropriate alternative control procedures, for all sales made in the meal line; require separate identification numbers of register users; establish responsibility for collections transferred among employees; and appropriately secure collections.**

**Finding No. 2: Background Screenings**

Sections 1012.465 and 1012.467, Florida Statutes, provide that noninstructional contractors who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background screenings at least every five years, unless the contractors are under the direct supervision of District personnel. We tested 32 noninstructional contractors, not supervised by District personnel, including 8 health department nurses permitted access to school grounds when students were present and 24 other noninstructional contractors who provided services such as music training, custodial, and renovation services. Our tests disclosed District records did not evidence that the appropriate background screenings were obtained for 7 of the 8 nurses and 1 of the other 24 noninstructional contractors.

District personnel indicated that they generally relied on the health department to perform the required background screenings of the nurses and the other exception occurred because of an oversight. Without documented evidence of the required background screenings of noninstructional contractors, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students.

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**Recommendation: The District should enhance its procedures to ensure that required background screenings are performed for noninstructional contractors.**

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**Finding No. 3: Compensation and Salary Schedules**

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

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

The salary schedule and union contract provided for certain types of differentiated pay; however, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2013-048 and 2014-055.

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

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**Finding No. 4: Health Insurance Plan – Participant Eligibility**

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For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute a maximum amount of \$550 per month toward the health insurance of each full-time employee and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan during the open enrollment period and make changes to their coverage outside of the enrollment period for certain qualifying events such as marriage, divorce, death, or birth of a dependent. There were 179 employees who contributed a total of \$477,641 and 19 retirees who contributed a total of \$177,327 to participate in the District's health insurance plan, and the District contributed \$1.26 million toward the plan. Also, 97 dependents participated in the health insurance plan.

District personnel reconciled health insurance billings to current payroll records to ensure that insurance premiums and related claims payments were only for eligible employees. However, the District did not require employees or retirees purchasing health insurance for their dependents to provide documentation, such as marriage licenses or birth certificates, evidencing the dependents' eligibility. Without verifying the eligibility of all dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

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

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

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### **Finding No. 5: Virtual Instruction Program**

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Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District contracted with the Panhandle Area Educational Consortium (PAEC) to administer certain aspects of the VIP. During the 2013-14 fiscal year, there were no students enrolled full-time, and 23 part-time students that participated in VIP courses. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Additionally, the lack of written VIP policies and procedures may have contributed to the following instances of the District's noncompliance and control deficiencies:

- Section 1002.45(1)(b), Florida Statutes, requires school districts, under certain conditions, to provide students the option of participating in VIPs. For example, students may choose VIP services provided by the school district, Florida Virtual School, another approved provider, another school district, or a virtual charter school. Pursuant to Section 1002.45(1)(b), Florida Statutes, school districts that are considered to be in sparsely-populated counties as discussed in Section 1011.62(7), Florida Statutes, must provide all enrolled public school students within its boundaries the option of participating in part-time or full-time VIPs. As the District is considered to be in a sparsely-populated county, the District must offer one VIP type for all grade levels within the District's VIP. Although the District provided all students the opportunity to participate in full-time virtual instruction and students in grades 6 through 12 the opportunity to participate in part-time virtual instruction, the District did not provide students in grades kindergarten through grade 5 the opportunity to participate in part-time virtual instruction. District personnel indicated that they believed they were in compliance because although the full-time option is for full-time students, it does not prohibit students from enrolling part-time.

- Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in a VIP, and Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely, written notification of the open enrollment periods for their VIPs. District personnel indicated that various communication methods were used to provide information about the District's VIP to parents and students. Such communication methods included the District Web site, and brochures distributed by the school guidance office and sent home with the student who requested the information. While these methods indicate efforts by District personnel to communicate with parents and students about the VIP for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents and students. In addition, the VIP communications did not include the open enrollment period dates. Absent timely, written notifications provided directly to parents, some parents may not have been informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.
- Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees in accordance with Section 1012.32, Florida Statutes. The District contracted with PAEC for VIP instructors and the contract provided that PAEC's Risk Management Department would review and approve the required background screenings. The District did not request or obtain confirmation that the VIP instructors were subject to background screenings. Since one VIP instructor also worked for the District, the District had conducted the required background screening. Subsequent to our inquiries, the District obtained from PAEC correspondence indicating that background screenings were performed for five of the remaining eight VIP instructors. However, three of the five VIP instructors were screened more than five years ago, contrary to Section 1012.32, Florida Statutes, and District records did not evidence that screenings were performed for the other three instructors. Without effective controls to ensure that VIP provider instructors are subjected to required background screenings, there is an increased risk that instructors may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data or information technology resources.

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**Recommendation:** The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should ensure the District offers all students at least the required minimum number of VIP options, provides timely written notification to all parents about student opportunities to participate in the VIP and open enrollment period dates, and verification that VIP instructors are subject to required background screenings.

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#### **Finding No. 6: 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 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

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

For the 2013-14 fiscal year, the District reported to the FDOE 18,967 instructional contact hours for 102 students enrolled in 381 adult general education classes. We randomly selected a representative sample of 3,988 hours reported

for 30 students enrolled in 107 adult general education classes to test the accuracy of the District’s reporting procedures. Our test disclosed 255 net hours over-reported, as follows:

- District personnel recorded an incorrect withdrawal date for 8 students in 11 classes, resulting in 326 hours over-reported, and an incorrect enrollment date for 1 student in 2 classes, resulting in 47 hours under-reported.
- District personnel incorrectly entered the course calendar in the student records system, resulting in a total of 82 hours over-reported for 3 students in 8 classes, and 81 hours under-reported for 2 students in 4 classes.
- Transmission errors to the FDOE and other oversights resulted in 25 hours under-reported for 4 students in 5 classes.

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. 2013-048 and 2014-055.

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**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.

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**PRIOR AUDIT FOLLOW-UP**

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The District had taken corrective actions for findings included in our report No. 2014-055 except as shown in the following table:

| Current Fiscal Year Finding Numbers | 2012-13 Fiscal Year Audit Report and Finding Numbers | 2011-12 Fiscal Year Audit Report and Finding Numbers |
|-------------------------------------|--|--|
| 3                                   | Audit Report No. 2014-055, Finding No. 1             | Audit Report No. 2013-048, Finding No. 1             |
| 6                                   | Audit Report No. 2014-055, Finding No. 8             | Audit Report No. 2013-048, Finding No. 4             |

Note: Above chart limits recurring findings to two previous audit reports.

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**MANAGEMENT’S RESPONSE**

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Management’s response is included as Exhibit A.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**

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

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

| Audit Report No.<br>and Federal<br>Awards Finding No. | Program/Area | Brief Description                           | Status | Comments |
|---|--------------|---|--------|----------|
| 2014-055  |              | There were no prior Federal audit findings. |        |          |

EXHIBIT A  
MANAGEMENT'S RESPONSE

JIM NORTON  
SUPERINTENDENT



150 Middle School Road  
Port St. Joe, FL 32456  
850-229-8256 • 850-639-2871  
Fax: 850-229-6089

January 5, 2015

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

Dear Mr. Martin:

Please find below responses to the Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2014, for the Gulf County District School Board.

Finding #1

**Response:** *The District will enhance controls over food service by requiring separate sign-in identification numbers for each user. The school personnel will record each food sale at the time of sale. This will avoid mass input of tea sales, for example. Daily cash collections procedures have been revised and made the sole responsibility of the lunchroom manager. Monies collected will be placed in the secure deposit drawer at the bank.*

Finding #2

**Response:** *The District has made strides to ensure that each non-instructional contractor has been through the appropriate Level II screening as required by Florida Statutes. The nurses completed these screenings through another system and the results were not available to us. We have asked the nurses to provide a copy of the screening results for our records*

Finding #3

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

[www.gulf.k12.fl.us](http://www.gulf.k12.fl.us)

Danny Little  
District 1

Brooke Wooten  
District 2

Linda Roberts Wood  
District 3

Billy C. Quinn, Jr.  
District 4

John W. Wright  
District 5

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Page 2

Finding #4

**Response:** *The District is in the process of working to enhance the procedures to verify the eligibility of all dependents covered by the District's health insurance plan.*

Finding #5

**Response:** *Written VIP policies and procedures have been developed and will be featured in the Board-approved Student Progression Plan (SPP). The SPP is made available to parents and students online and in hard copy format. These written policies and procedures have also been placed in flyer format to be shared with students and parents during the registration process, orientations, open houses, student handbooks and other such venues. The written policies and procedures detail the models available (full-time, part-time, and blended), enrollment information including parental consent requirements, online class graduation requirements, grading scale, etc.*


*The District will continue to contract with the Panhandle Area Educational Consortium (PAEC). PAEC's Risk Management Department will review the required background screenings of VIP instructors and provide the district with written confirmation that all VIP instructors met the screening criteria.*

Finding #6

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

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

Most Sincerely,



Jim Norton  
Superintendent

pcs: School Board Members  
[sworley@gulf.k12.fl.us](mailto:sworley@gulf.k12.fl.us)  
[pattycrutchfield@aud.state.fl.us](mailto:pattycrutchfield@aud.state.fl.us)  
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