

**PINELLAS COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2014



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Janet R. Clark	1
Terry Krassner	2
Peggy L. O'Shea, Vice Chair to 11-11-13	3
Robin L. Wikle	4
Carol J. Cook, Chair	5
Linda S. Lerner, Vice Chair from 11-12-13	6
Rene Flowers	7

Dr. Michael A. Grego, 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 Rachel P. Sellers, CPA and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Deena Warren, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

**PINELLAS COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Controls over investment purchases could be enhanced.

Finding No. 2: Improvements were needed in controls over maintenance, warehouse, and transportation inventories.

Finding No. 3: District records did not evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in \$1,164,325 of questioned costs.

Finding No. 4: The food service program financial condition could be improved.

Finding No. 5: Controls over monitoring bus drivers could be improved.

Finding No. 6: Certain employment agreements included severance pay provisions that did not appear to be consistent with Section 215.425(4)(a), Florida Statutes.

Finding No. 7: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 8: Controls over contractual services and related payments could be improved.

Finding No. 9: Procedural enhancements could be made to ensure compliance with workforce development programs fund restrictions.

Finding No. 10: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 11: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written procedures.

Finding No. 12: VIP provider contracts did not include certain necessary provisions.

Finding No. 13: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

Finding No. 14: The District could enhance its procedures to ensure that timely, written notifications are provided to parents about all VIP options offered.

Finding No. 15: The District's procedures did not always require documented verification that VIP students complied with compulsory attendance requirements.

Finding No. 16: VIP students and their parents were not notified of the availability of Internet access or that Internet access would be provided to qualified VIP students.

Finding No. 17: Some inappropriate and unnecessary information technology (IT) access privileges existed.

Finding No. 18: The District's IT security program needed improvement.

Finding No. 19: District IT security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Special Education Cluster, Career and Technical Education, Charter Schools, and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2014-001: The District did not adequately document charges to the Special Education program for coordinated early intervention services, resulting in \$289,312 of questioned costs.

Federal Awards Finding No. 2014-002: The District should enhance its procedures to ensure that required documentation is maintained to support personnel charges to the Child Nutrition Cluster programs.

Federal Awards Finding No. 2014-003: The District transferred funds totaling \$7.3 million during the 2011-12 through 2013-14 fiscal years from its self-insurance program internal service fund to the General Fund, and no determination was made of the portion that should be credited to Federal programs.

Federal Awards Finding No. 2014-004: The District used Title I program funds for expenditures incurred outside the period of availability, resulting in \$169,910 of questioned costs.

Federal Awards Finding No. 2014-005: District procedures did not ensure that all Title I program salary and benefit expenditures were allowable, resulting in \$11,290 of questioned costs.

Audit Objectives and Scope

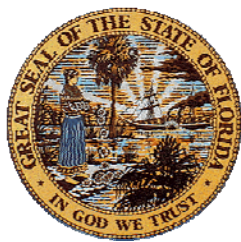
Our audit objectives were to determine whether the Pinellas County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

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

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pinellas 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 aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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

Opinions

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

Emphasis of Matter

As discussed in note II to the financial statements, changes in reporting of component unit financial activities affected the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part

of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Pinellas 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, net position decreased \$35.5 million, which represents a 1.8 percent decrease compared to the 2012-13 fiscal year.
- General revenues total \$940 million, or 93.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$65.3 million, or 6.5 percent of all revenues.
- Expenses total \$1 billion, of which \$65.3 million is offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$35.5 million.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$57.3 million. The General Fund total assigned and unassigned fund balances was \$25.6 million, or 3.3 percent of total General Fund revenues.
- Net capital assets increased by \$7.8 million from the prior fiscal year. This increase was mostly attributed to building additions and construction in progress.

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.

The major features of the District's financial statements, including the portion of the activities reported and the type of information contained, is shown in the following table:

	Districtwide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire District (except fiduciary funds).	The activities of the District that are not proprietary or fiduciary.	Activities the District provides to other funds. The District's self-insurance program is the only proprietary operation.	Assets held by the District in a trustee or grant capacity such as the internal accounts of the schools.
Required financial statements	Statement of net position and statement of activities.	Balance sheet and statement of revenues, expenditures and changes in fund balances.	Statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows.	Statement of fiduciary assets and liabilities.
Basis of accounting and measurement focus.	Accrual accounting. Economic resources focus.	Modified accrual accounting. Current financial resources focus.	Accrual accounting. Economic resources focus.	Accrual accounting. Economic resources focus.
Type of asset and liability information	All assets and liabilities, both financial and capital; short-term and long-term.	Generally, assets expected to be used up and liabilities that come due during the fiscal year or soon thereafter. No capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital; short-term and long-term.	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can.
Type of inflow and outflow information	All revenues and expenses during the fiscal year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the fiscal year; expenditures when goods or services have been received and the related liabilities are due and payable.	All revenues and expenses during the fiscal year, regardless of when cash is received or paid.	All additions or deductions during the fiscal year, regardless of when cash is received and paid.

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents 21 separate legal entities in this report. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

This information should be evaluated in conjunction with other non-financial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

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 District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains an internal service fund to account for its self-insurance programs, including workers' compensation, general liability, and automobile liability coverage. The District's internal service fund is included within governmental activities in the government-wide financial statements because the services predominantly benefit the District's governmental activities.

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-14	6-30-13
Current and Other Assets	\$ 311,712,951	\$ 356,788,998
Capital Assets	1,821,240,783	1,813,431,312
Total Assets	2,132,953,734	2,170,220,310
Long-Term Liabilities	141,746,444	149,456,958
Other Liabilities	70,985,648	65,024,873
Total Liabilities	212,732,092	214,481,831
Net Position:		
Net Investment in Capital Assets	1,796,670,997	1,777,556,490
Restricted	195,184,146	216,539,444
Unrestricted Deficit	(71,633,501)	(38,357,455)
Total Net Position	\$ 1,920,221,642	\$ 1,955,738,479

The largest portion of the District's net position (93.6 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net assets, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (\$32 million after exclusion of \$89.5 million in compensated absences payable and \$14.1 million in other postemployment benefits obligations) may be used to meet the District's ongoing obligations to students, employees, and creditors.

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

Operating Results for the Fiscal Year Ended		
	Governmental Activities	
	6-30-14	6-30-13
Program Revenues:		
Charges for Services	\$ 22,289,560	\$ 30,033,162
Operating Grants and Contributions	36,096,291	31,374,193
Capital Grants and Contributions	6,939,736	5,766,704
General Revenues:		
Property Taxes, Levied for Operational Purposes	386,130,007	386,633,210
Property Taxes, Levied for Capital Projects	88,279,359	85,226,521
Grants and Contributions Not Restricted to Specific Programs	448,284,201	396,484,820
Unrestricted Investment Earnings	(1,211,202)	(1,118,020)
Miscellaneous	18,476,078	8,536,376
Total Revenues	1,005,284,030	942,936,966
Functions/Program Expenses:		
Instruction	593,181,629	554,853,910
Student Personnel Services	40,996,083	39,841,312
Instructional Media Services	7,965,836	9,863,882
Instruction and Curriculum Development Services	19,647,538	17,593,504
Instructional Staff Training Services	16,285,130	13,985,950
Instruction Related Technology	5,229,306	11,798,584
School Board	7,306,885	4,823,639
General Administration	5,002,128	5,572,420
School Administration	53,367,331	51,155,928
Facilities Acquisition and Construction	16,547,273	9,984,019
Fiscal Services	4,288,301	4,000,480
Food Services	55,271,314	47,287,303
Central Services	13,259,941	12,420,948
Student Transportation Services	33,996,245	32,236,100
Operation of Plant	75,122,718	76,884,823
Maintenance of Plant	22,292,640	21,229,216
Administrative Technology Services	5,509,524	5,106,634
Community Services	5,686,144	4,413,922
Unallocated Interest on Long-Term Debt	1,835,837	2,180,079
Unallocated Depreciation Expense	54,286,450	47,788,917
Loss on Disposal of Capital Assets	3,722,614	6,405,944
Total Functions/Program Expenses	1,040,800,867	979,427,514
Change in Net Position	(35,516,837)	(36,490,548)
Net Position - Beginning	1,955,738,479	1,992,229,027
Net Position - Ending	\$ 1,920,221,642	\$ 1,955,738,479

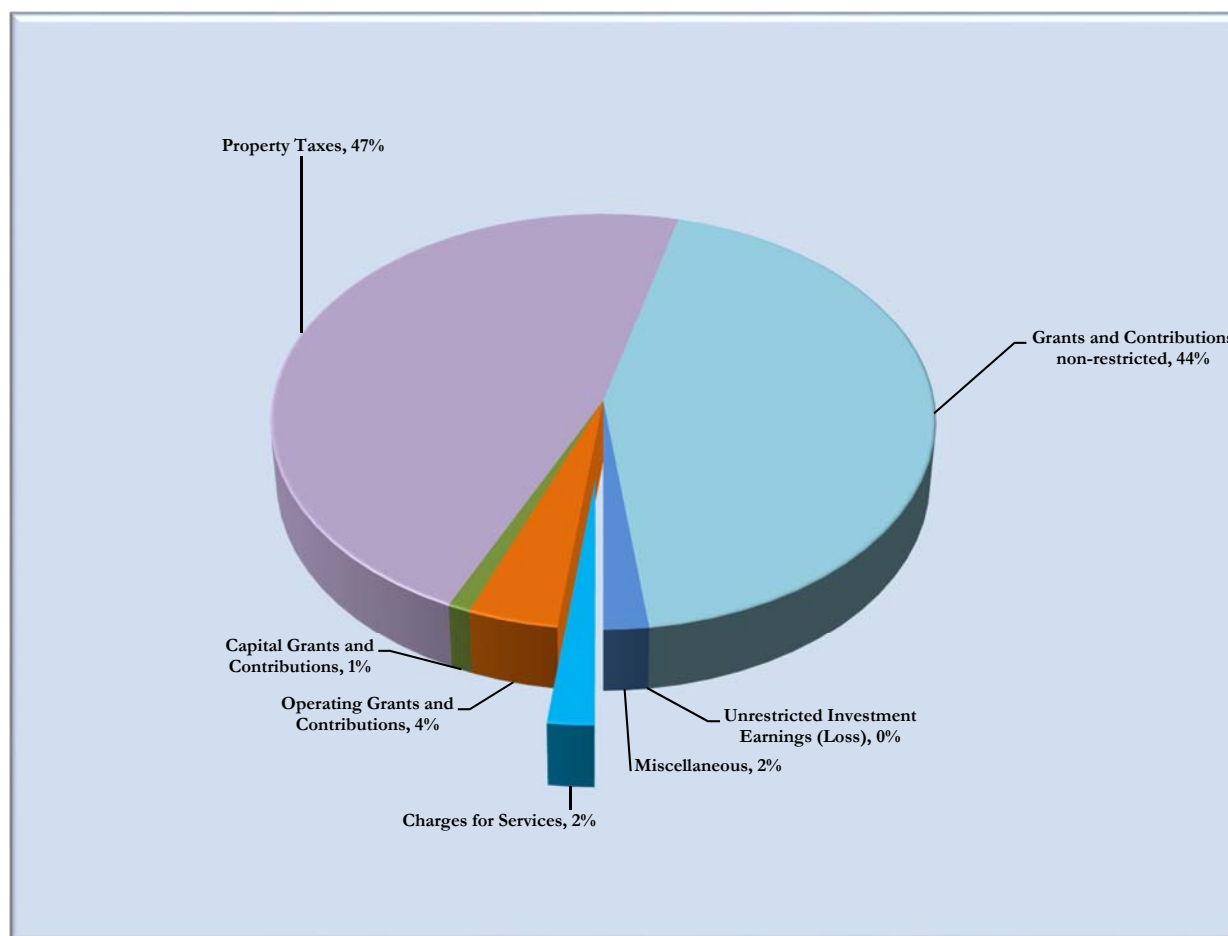
Revenues totaled \$1 billion for the 2013-14 fiscal year, an increase from the prior fiscal year of \$62.3 million. The largest source of revenue was property taxes, which totaled \$474.4 million. State revenue totaled \$363.9 million, or 36.2 percent of total revenue. Revenues from State sources for current operations are primarily received through the

Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida districts, taking into consideration the District's funding ability based on the local property tax base.

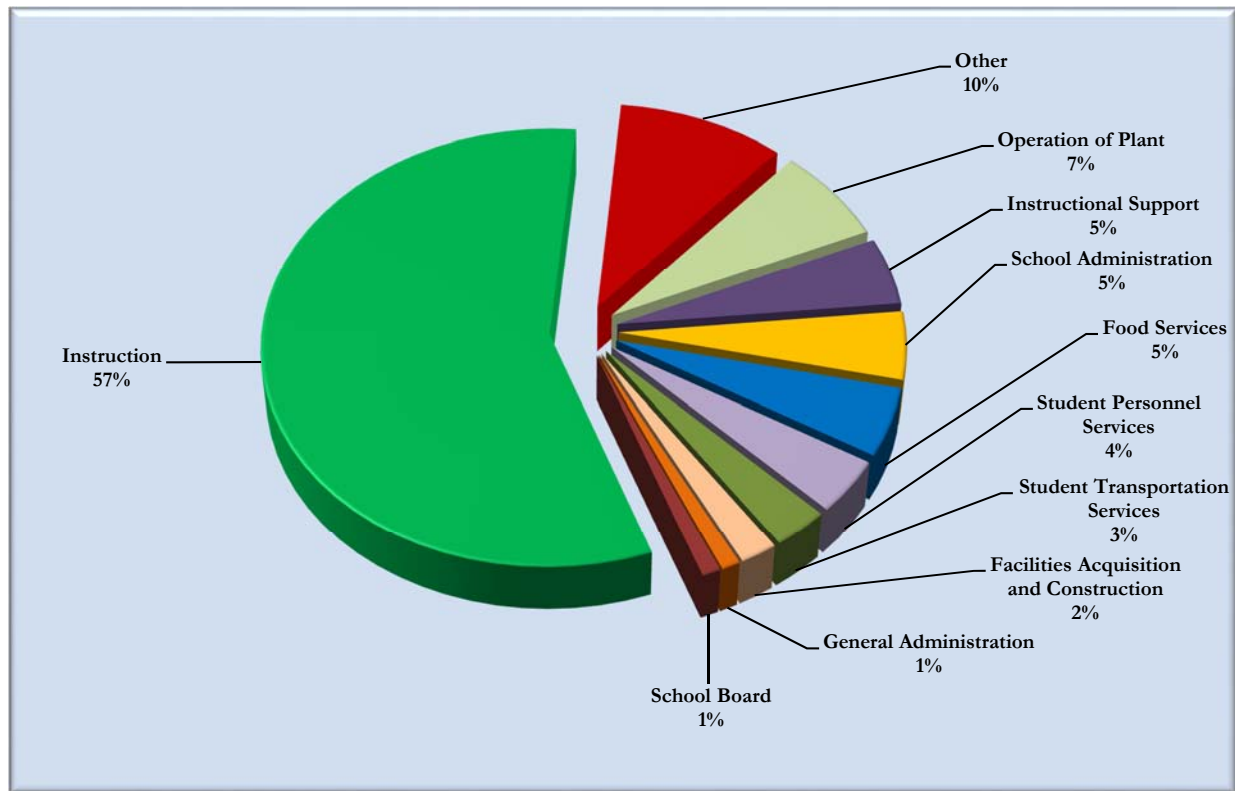
Grants and contributions not restricted to specific programs revenues increased by \$51.8 million, or 13.1 percent, primarily due to an increase in FEFP funding of \$37.9 million, an increase in the Race-to-the-Top program funding due to an increase in program expenditures of \$8.1 million, and an increase of \$2.7 million in premium revenues for workers' compensation in the Self-Insurance Fund.

Government-wide expenses increased by \$61.4 million, or 6.3 percent, over the 2012-13 fiscal year and totaled \$1 billion. Classroom instruction, student personnel services, and instructional support expenses represent 65.7 percent of these expenses and total \$683.3 million, an increase of \$35.4 million, or 5.5 percent, over the prior fiscal year. This increase was due to an increase in teachers and non-instruction employees' salaries and benefits, and increases in health insurance expenses.

**Revenue by Source – Governmental Activities
Fiscal Year Ended June 30, 2014**



Expenses by Source – Governmental Activities
Fiscal Year Ended June 30, 2014



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$48.7 million during the fiscal year to \$227.1 million at June 30, 2014. Approximately 2.6 percent of this amount is unassigned fund balance (\$5.9 million), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$7.3 million), 2) restricted for particular purposes (\$194.1 million), or 3) assigned for particular purposes (\$19.8 million).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$5.9 million, while the total fund balance is \$57.3 million. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned

and unassigned fund balance is 3.3 percent of the total General Fund revenues, while total fund balance represents 7.5 percent of total General Fund revenues. Total fund balance increased by \$144.9 thousand.

The Special Revenue - Federal Economic Stimulus Fund has total revenue and expenditures of \$11.1 million, each. Revenues and expenditures increased by \$6.2 million each from the previous fiscal year. This was due to an increase in funding for the Race-to-the-Top program. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects - Local Capital Improvement Fund has a fund balance of \$166.1 million, which is restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$64.8 million has been encumbered for specific projects. The fund balance decreased \$36.2 million due to expenditures for new construction and renovations at numerous school sites in the current fiscal year using previously accumulated fund balance resources.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2013-14 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$457.8 thousand or 0.1 percent. At the same time, final appropriations are less than the original budgeted amounts by \$31.6 million or 4 percent. Budget revisions occurred primarily from changes in estimated State funding levels, property taxes, and Federal funding and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$7 million, or 0.9 percent, less than final budgeted amounts. The positive variance in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$6.9 million.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, is \$1.8 billion (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; relocatables, furniture, fixtures, and equipment; motor vehicles; property under capital leases; and audio visual materials and computer software. This amount represents a net increase of \$7.8 million from the 2012-13 fiscal year. Total capital assets increased by \$61.4 million, mostly in construction in progress (\$27.6 million) and buildings and fixed equipment (\$35.1 million). Accumulated depreciation increased by \$53.6 million. The following summarizes changes in capital assets:

Capital Assets		
	6-30-14	6-30-13
Land	\$ 97,356,174	\$ 97,213,078
Land Improvements - Nondepreciable	22,717,599	22,717,599
Construction in Progress	40,529,125	12,948,469
Improvements Other than Buildings	8,557,966	8,519,955
Buildings and Fixed Equipment	2,270,430,469	2,235,332,537
Relocatables	16,180,980	13,838,461
Furniture, Fixtures, and Equipment	127,945,658	127,534,628
Motor Vehicles	56,402,206	56,320,087
Property Under Capital Leases	44,770,897	44,770,897
Audio Visual Materials and Computer Software	9,480,330	13,777,489
Total Capital Assets	2,694,371,404	2,632,973,200
Accumulated Depreciation	(873,130,621)	(819,541,888)
Total Net Capital Assets	<u>\$ 1,821,240,783</u>	<u>\$ 1,813,431,312</u>

Major capital asset events included construction in progress of \$40.5 million at June 30, 2014, which includes new construction and renovations at various District schools.

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

Long-Term Debt

At June 30, 2014, the District has total long-term debt outstanding of \$24.6 million in bonds payable and capital leases outstanding, a decrease of \$10 million, or 28.8 percent from the 2012-13 fiscal year due to payment of current principal payments.

Changes in Long-Term Debt		
	6-30-14	6-30-13
Obligations Under Capital Leases	\$ 5,494,786	\$ 12,546,264
Bonds Payable	19,075,000	21,985,000
Total Change in Long-Term Debt	<u>\$ 24,569,786</u>	<u>\$ 34,531,264</u>

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

OTHER MATTERS OF SIGNIFICANCE

The District continues to face the challenge of limited funding to support quality instruction. The State of Florida has elected to continue to participate in the Race-to-the-Top program for the 2014-15 fiscal year, thereby allowing the District to continue participation in the program. The voter approved one-half millage referendum for operating expenditures was approved in November 2012 for a four-year period and will continue to assist in funding costs to provide quality instruction and service to the County's growing population.

Imagine Middle School of St. Petersburg and Gulf Coast Academy ceased operations and closed as of June 30, 2014.

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 Accounting, Pinellas County District School Board, Post Office Box 2942, Largo, Florida 33779-2942.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	\$ 9,271,570	\$ 3,379,151
Restricted Cash		801,010
Investments	270,966,590	
Accounts Receivable	17,709,966	193,682
Interest Receivable	554,657	
Deposits Receivable		30,600
Due from Other Agencies	5,990,246	602,426
Prepaid Items	2,249,093	385,776
Inventories	4,970,829	
Other Noncurrent Assets		11,017
Capital Assets:		
Nondepreciable Capital Assets	160,602,898	1,093,667
Depreciable Capital Assets, Net	1,660,637,885	10,518,443
TOTAL ASSETS	2,132,953,734	17,015,772
LIABILITIES		
Salaries and Benefits Payable	10,304,317	305,656
Payroll Deductions and Withholdings	38,854,076	
Accounts Payable	11,259,182	2,048,398
Construction Contracts Payable	1,570,251	
Construction Contracts Payable - Retainage	1,864,781	
Due to Other Agencies	6,418,944	1,276
Collateralized Advanced Borrowing		498,500
Advanced Revenue	714,097	
Long-Term Liabilities:		
Portion Due Within One Year	22,472,073	106,993
Portion Due After One Year	119,274,371	10,088,824
TOTAL LIABILITIES	212,732,092	13,049,647
NET POSITION		
Net Investment in Capital Assets	1,796,670,997	2,014,878
Restricted for:		
State Required Carryover Programs	795,728	
Workforce Development	22,967,727	
Debt Service	494,230	
Capital Projects	168,153,177	36,189
Food Service	905,345	
Endowment - Nonexpendable	150,185	
Other Purposes	1,717,754	1,602,020
Unrestricted	(71,633,501)	313,038
TOTAL NET POSITION	\$ 1,920,221,642	\$ 3,966,125

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 593,181,629	\$ 4,268,027	\$	\$
Student Personnel Services	40,996,083			
Instructional Media Services	7,965,836			
Instruction and Curriculum Development Services	19,647,538			
Instructional Staff Training Services	16,285,130			
Instruction Related Technology	5,229,306			
School Board	7,306,885	6,260,239		
General Administration	5,002,128			
School Administration	53,367,331			
Facilities Acquisition and Construction	16,547,273			6,939,736
Fiscal Services	4,288,301			
Food Services	55,271,314	9,026,336	36,096,291	
Central Services	13,259,941			
Student Transportation Services	33,996,245	2,734,958		
Operation of Plant	75,122,718			
Maintenance of Plant	22,292,640			
Administrative Technology Services	5,509,524			
Community Services	5,686,144			
Unallocated Interest on Long-Term Debt	1,835,837			
Unallocated Depreciation Expense*	54,286,450			
Loss on Disposal of Capital Assets	3,722,614			
Total Governmental Activities	\$ 1,040,800,867	\$ 22,289,560	\$ 36,096,291	\$ 6,939,736
Component Units				
Charter Schools	\$ 41,892,226	\$ 614,116	\$ 1,502,641	\$ 2,307,933

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - July 1, 2013

Adjustment to Beginning Net Position

Restated Net Position - Beginning

Net Position - Ending

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

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

Net (Expense) Revenue and Changes in Net Position		
	Primary Government	Component
	Governmental	Units
	Activities	
\$	(588,913,602)	\$
	(40,996,083)	
	(7,965,836)	
	(19,647,538)	
	(16,285,130)	
	(5,229,306)	
	(1,046,646)	
	(5,002,128)	
	(53,367,331)	
	(9,607,537)	
	(4,288,301)	
	(10,148,687)	
	(13,259,941)	
	(31,261,287)	
	(75,122,718)	
	(22,292,640)	
	(5,509,524)	
	(5,686,144)	
	(1,835,837)	
	(54,286,450)	
	(3,722,614)	
	<u>(975,475,280)</u>	
		<u>(37,467,536)</u>
	386,130,007	
	88,279,359	
	448,284,201	37,835,902
	(1,211,202)	6,841
	<u>18,476,078</u>	<u>1,145,361</u>
	<u>939,958,443</u>	<u>38,988,104</u>
	(35,516,837)	1,520,568
	1,955,738,479	2,048,964
		<u>396,593</u>
	<u>1,955,738,479</u>	<u>2,445,557</u>
\$	<u>1,920,221,642</u>	\$ <u>3,966,125</u>

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 8,906,245	\$	\$ 250,625
Investments	36,790,329	2,121	212,212,379
Accounts Receivable	682,492	4,039,169	
Interest Receivable	259,718		270,879
Due from Other Funds	64,251,969	76,007	689,343
Due from Other Agencies	4,439,963		377,799
Prepaid Items	2,181,768		
Inventories	4,065,561		
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ 121,578,045	\$ 4,117,297	\$ 213,801,025
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 10,304,317	\$	\$
Payroll Deductions and Withholdings	35,487,948	1,130,407	
Accounts Payable	3,775,729	152,074	5,621,000
Construction Contracts Payable			1,570,251
Construction Contracts Payable - Retainage			1,380,983
Due to Other Funds	8,977,188	2,663,636	39,142,084
Due to Other Agencies	5,668,146	171,180	
Advanced Revenue	14,897		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	64,228,225	4,117,297	47,714,318
	<u> </u>	<u> </u>	<u> </u>
Fund Balances:			
Nonspendable	6,247,329		
Restricted	25,481,209		166,086,707
Assigned	19,763,361		
Unassigned	5,857,921		
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	57,349,820		166,086,707
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 121,578,045	\$ 4,117,297	\$ 213,801,025
	<u> </u>	<u> </u>	<u> </u>

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 39,677	\$ 9,196,547
10,165,201	259,170,030
12,254,187	16,975,848
	530,597
865,198	65,882,517
1,107,946	5,925,708
67,325	2,249,093
905,268	4,970,829
<u> </u>	<u> </u>
\$ 25,404,802	\$ 364,901,169
<u> </u>	<u> </u>
\$ 2,235,721	\$ 10,304,317
1,518,574	38,854,076
	11,067,377
	1,570,251
483,798	1,864,781
16,271,661	67,054,569
579,618	6,418,944
699,200	714,097
<u> </u>	<u> </u>
21,788,572	137,848,412
<u> </u>	<u> </u>
1,055,530	7,302,859
2,560,700	194,128,616
	19,763,361
	5,857,921
<u> </u>	<u> </u>
3,616,230	227,052,757
<u> </u>	<u> </u>
\$ 25,404,802	\$ 364,901,169
<u> </u>	<u> </u>

PINELLAS 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	\$	227,052,757
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,821,240,783
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		74,028
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Obligations Under Capital Leases	\$ 5,494,786	
Bonds Payable	19,075,000	
Compensated Absences Payable	89,470,196	
Other Postemployment Benefits Payable	14,105,944	
		(128,145,926)

Net Position - Governmental Activities	\$	1,920,221,642
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 351,579	\$	\$
Federal Through State and Local	4,308,418	11,098,760	
State	356,468,507		
Local:			
Property Taxes	386,130,007		88,279,359
Charges for Services - Food Service			
Miscellaneous	18,322,669		(1,190,706)
Total Local Revenues	<u>404,452,676</u>		<u>87,088,653</u>
Total Revenues	<u>765,581,180</u>	<u>11,098,760</u>	<u>87,088,653</u>
Expenditures			
Current - Education:			
Instruction	541,161,978	7,848,589	
Student Personnel Services	32,410,816	152,042	
Instructional Media Services	7,673,453	24,673	
Instruction and Curriculum Development Services	10,087,580	1,161,564	
Instructional Staff Training Services	5,145,919	549,778	
Instruction Related Technology	4,429,149	275,508	
School Board	1,497,268		
General Administration	2,481,305	548,453	
School Administration	52,645,095	105,402	
Facilities Acquisition and Construction	486,586		9,176
Fiscal Services	4,180,945	23,641	
Food Services	129,935		
Central Services	11,785,219	227,580	
Student Transportation Services	33,811,743	5,113	
Operation of Plant	74,785,579	16,845	
Maintenance of Plant	22,195,620	761	
Administrative Technology Services	5,202,232	17,974	
Community Services	798,491		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			78,723,142
Other Capital Outlay	3,836,877	140,837	
Debt Service:			
Principal			7,051,577
Interest and Fiscal Charges	114,609		480,381
Total Expenditures	<u>814,860,399</u>	<u>11,098,760</u>	<u>86,264,276</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(49,279,219)</u>		<u>824,377</u>
Other Financing Sources (Uses)			
Transfers In	49,256,952		
Proceeds from Sale of Capital Assets			
Insurance Loss Recoveries	167,151		
Transfers Out			(37,017,402)
Total Other Financing Sources (Uses)	<u>49,424,103</u>		<u>(37,017,402)</u>
Net Change in Fund Balances	144,884		(36,193,025)
Fund Balances, Beginning	57,204,936		202,279,732
Fund Balances, Ending	<u>\$ 57,349,820</u>	<u>\$ 0</u>	<u>\$ 166,086,707</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 6,118,098	\$ 6,469,677
105,516,074	120,923,252
7,458,792	363,927,299
	474,409,366
9,026,336	9,026,336
2,864,302	19,996,265
<u>11,890,638</u>	<u>503,431,967</u>
<u>130,983,602</u>	<u>994,752,195</u>
38,850,580	587,861,147
8,220,672	40,783,530
150,516	7,848,642
8,277,217	19,526,361
10,525,612	16,221,309
428,455	5,133,112
600	1,497,868
1,941,290	4,971,048
411,924	53,162,421
42,978	538,740
59,488	4,264,074
54,124,194	54,254,129
997,539	13,010,338
92,087	33,908,943
140,603	74,943,027
	22,196,381
223,888	5,444,094
4,675,876	5,474,367
390,395	79,113,537
4,133,469	8,111,183
2,910,000	9,961,577
<u>1,240,847</u>	<u>1,835,837</u>
<u>137,838,230</u>	<u>1,050,061,665</u>
<u>(6,854,628)</u>	<u>(55,309,470)</u>
4,217,318	49,256,952
	4,217,318
	167,151
<u>(10,037,550)</u>	<u>(47,054,952)</u>
<u>(5,820,232)</u>	<u>6,586,469</u>
(12,674,860)	(48,723,001)
<u>16,291,090</u>	<u>275,775,758</u>
<u>\$ 3,616,230</u>	<u>\$ 227,052,757</u>

**PINELLAS 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 **\$ (48,723,001)**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 11,549,854

The disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (3,740,383)

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

Capital Leases Principal Payments	\$ 7,051,478	
Bonds Principal Payments	<u>2,910,000</u>	9,961,478

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 amount of compensated absences earned in excess of the amount paid in the current fiscal year. (68,665)

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. (2,637,355)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (1,858,765)

Change in Net Position - Governmental Activities **\$ (35,516,837)**

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

**PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUND
June 30, 2014**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash	\$ 75,023
Investments	11,796,560
Accounts Receivable	303,387
Interest Receivable	24,060
Due From Other Funds	3,611,541
Due From Other Agencies	64,538
TOTAL ASSETS	15,875,109
LIABILITIES	
Current Liabilities:	
Due to Other Funds	2,200,563
Estimated Insurance Claims Payable	3,912,638
Total Current Liabilities	6,113,201
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	9,687,880
TOTAL LIABILITIES	15,801,081
NET POSITION	
Unrestricted	\$ 74,028

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

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

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues	\$ 6,260,239
OPERATING EXPENSES	
Insurance Claims	5,804,131
Operating Income	456,108
NONOPERATING REVENUES	
Interest Revenue	(112,873)
Income Before Transfers	343,235
Transfers Out	(2,202,000)
Change in Net Position	(1,858,765)
Total Net Position - Beginning	1,932,793
Total Net Position - Ending	\$ 74,028

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

**PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds	\$ 5,945,589
Cash Payments for Insurance Claims and Fees	<u>(6,259,187)</u>
Net Cash Used by Operating Activities	<u>(313,598)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	<u>(2,202,000)</u>
Net Cash Used by Noncapital Financing Activities	<u>(2,202,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(1,703,918)
Proceeds from Sales and Maturity of Investments	4,328,532
Interest Income	<u>(109,011)</u>
Net Cash Provided by Investing Activities	<u>2,515,603</u>
Net Increase in Cash	5
Cash, Beginning	<u>75,018</u>
Cash, Ending	<u><u>\$ 75,023</u></u>

Reconciliation of Operating Income to Net Cash Used by Operating Activities:

Operating Income	\$ 456,108
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	240,497
Due From Other Funds	(2,228,445)
Due From Other Agencies	(28,725)
Due To Other Funds	1,702,023
Estimated Insurance Claims Payable	<u>(455,056)</u>
Total Adjustments	<u>(769,706)</u>
Net Cash Used by Operating Activities	<u><u>\$ (313,598)</u></u>

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

**PINELLAS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2014**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 8,280,182
Investments	107,881
Accounts Receivable	1,125,023
Interest Receivable	187
Due from Other Funds	<u>191,805</u>
TOTAL ASSETS	<u><u>\$ 9,705,078</u></u>
LIABILITIES	
Accounts Payable	\$ 108,710
Due to Other Funds	430,731
Internal Accounts Payable	<u>9,165,637</u>
TOTAL LIABILITIES	<u><u>\$ 9,705,078</u></u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Pinellas County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense, which can be associated with a specific program or activity, is allocated to the related function, while the remaining depreciation expense is reported as unallocated.

B. Reporting Entity

The Pinellas 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 seven elected members. The appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Pinellas County.

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

Based on the application of these criteria, the following component units are included within the District's reporting entity:

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

These component units consist of the following charter schools: Academie Da Vinci Charter School, Inc.; Alfred Adler Elementary School; The Athenian Academy, Inc.; Discovery Academy of Science; Enterprise

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

High School; Gulf Coast Academy; Imagine Middle School at St. Petersburg; Pinellas MycroSchool of Integrated Academics and Technologies, Inc.; Newpoint Pinellas High; Newpoint Pinellas Academy, Inc.; Pinellas Academy of Math and Science; Pinellas Preparatory Academy, Inc.; Pinellas Primary Academy Charter School; Plato Academy Clearwater Charter School; Plato Academy Tarpon Springs Charter School; Plato Academy Palm Harbor Charter School; Plato Academy Seminole Charter School; Plato Academy Largo Charter School; Plato Academy St. Petersburg Charter School; University Preparatory Academy, and Windsor School, Inc.

Except for Imagine Middle School at St. Petersburg, the charter schools listed above are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. Imagine – Pinellas, LLC, doing business as Imagine Middle Schools at St. Petersburg, is organized as a limited liability company pursuant to Chapter 608, Florida Statutes, the Florida Limited Liability Company Act, and Section 1002.33, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Board. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

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

C. Basis of Presentation: Government-wide Financial Statements

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

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used.

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, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. 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.

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

The District reports the following major governmental funds:

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

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

- Internal Service Fund – to account for the District's individual self-insurance programs.
- 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, in addition to accounting for resources held by the District as custodian for others.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when

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

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 21 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 21 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 proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

1. Cash

The District's cash is considered to be cash on hand and demand deposits.

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 State Board of Administration (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, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.84438408 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

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

securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of United States Treasury Securities, obligations of United States Government agencies and instrumentalities, domestic bonds and notes, bond mutual funds, and money market mutual funds and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on a moving average 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.

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	15 years
Buildings and Fixed Equipment	20 - 50 years
Relocatables	10 years
Furniture, Fixtures, and Equipment	4 - 20 years
Motor Vehicles	5 - 15 years
Audio Visual Materials and Computer Software	4 - 10 years
Property under Capital Leases	3 - 12 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District's policy to consider restricted - net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

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

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

fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 2014.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. Board Policy No. 6210 authorizes the Superintendent to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments 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.

In addition, the District has adopted Board Policy No. 6210 that provides for the Board to maintain an unreserved (unassigned) fund balance in its operating funds equal to 1 percent of the annual resources. To the extent resources are available, the contingency shall be incrementally increased until it reaches a maximum level of 3 percent of appropriations.

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.

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

2. State Revenue Sources

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

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

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

3. District Property Taxes

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

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

The Board adopted the 2013 tax levy on September 10, 2013. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements

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

when taxes are received by the District, except that revenue is accrued for taxes collected by the Pinellas County Tax Collector at fiscal year-end but not yet remitted to the District.

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

4. Federal Revenue Sources

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

5. Compensated Absences

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

6. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund are charges for workers' compensation, automobile liability, and general liability insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. ACCOUNTING CHANGES – COMPONENT UNITS

A. Change in Reporting Entity

Effective for the 2013-14 fiscal year, the District included the financial activity of the Plato Academy Seminole Charter School.

B. Prior Period Adjustments

The District made the following adjustments:

- Removed assets and liabilities that were determined not to be valid of the Gulf Coast Academy as of July 1, 2013.
- Properly allocated capital assets and related liabilities from a prior period for the Pinellas Preparatory Academy, Inc. and the Pinellas Primary Academy Charter School.

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

As a result of these changes in reporting, the net position of the component units as a whole has been adjusted as follows:

Component Units' Net Position - June 30, 2013	\$ 2,048,964
Adjustments to Beginning Net Position:	
Addition of Plato Academy Seminole Charter School	27,592
Adjustments to Gulf Coast Academy	378,122
Adjustments to Pinellas Preparatory Academy, Inc.	10,307
Adjustments to Pinellas Primary Academy Charter School	<u>(19,428)</u>
Component Units' Net Position - July 1, 2013	<u>\$ 2,445,557</u>

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

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

B. Investments

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

Investment	Fair Value	Six Months or Less	Greater Than Six Months to Two Years	Greater Than Two Years to Four Years	Greater Than Four Years to Six Years
SBA:					
Florida PRIME	\$ 216,893	\$ 216,893	\$	\$	\$
Fund B	226,295			226,295	
Debt Service Accounts	494,230	494,230			
Money Market Funds:					
Florida Education Investment Trust Fund	5,002,096	5,002,096			
Morgan Stanley Prime Portfolio Institutional Class	2,151,672	2,151,672			
Morgan Stanley Government Portfolio Institutional Class	119,535	119,535			
Morgan Stanley Government Securities Institutional Class	119,546	119,546			
Goldman Sachs Financial Square Money Market Fund	187,655	187,655			
Federated Money Market Prime Obligation Fund	187,654	187,654			
Western Asset Institutional Cash Reserves	187,654	187,654			
First American Government Obligations Fund	50	50			
United States Treasury Securities (1)	5,019,137	5,019,137			
The Core Fund Short-Term United States Government Bond Fund (2)	36,089,339	36,089,339			
Obligations of United States Government Agencies and Instrumentalities:					
Collateralized Mortgage Obligations (1)	85,004,204	744,714	50,556,417	29,396,636	4,306,437
Collateralized Mortgage Obligations-Floating Rates (1)	37,758,212	534,495		37,223,717	
Domestic Bonds and Notes:					
Nongovernment Asset Backed (1)	22,365,061	2,290,661	20,074,400		
Nongovernment Mortgage Backed (1)	64,474,442	18,678,737	45,795,705		
Nongovernment Mortgage Backed-Floating Rates (1)	11,470,796	6,233,643	5,237,153		
Total Investments, Primary Government	\$ 271,074,471	\$ 78,257,711	\$ 121,663,675	\$ 66,846,648	\$ 4,306,437

Notes: (1) The District used the modified duration method to determine maturities for these investments.

(2) The District used the hedged duration method to determine maturity of -0.223 years for this investment. The unhedged duration was 2.435 years.

➤ **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy states that the weighted average duration of the investment portfolio shall not exceed five years.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. 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, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

The District has \$122,762,416 in obligations of United States Government agencies and instrumentalities and \$98,310,299 in obligations of nongovernment asset-backed securities that include embedded options consisting of the option at the discretion of the issuers to call their obligations or

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

pay a stated increase in the interest rate. These securities have various call dates, and mature between July 2014 and November 2019 (modified duration maturity dates).

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits investments to:

- Obligations of Federal agencies, government sponsored enterprises, and instrumentalities. As of June 30, 2014, the District's investment portfolio included these types of securities with a total fair market value of \$122,762,416. At June 30, 2014, these collateralized mortgage obligations were unrated.
- Asset-backed securities when either the underlying asset is guaranteed by the issuer or the security carries the highest quality rating by a nationally recognized rating agency. As of June 30, 2014, the District's investment portfolio included asset-backed securities with a total fair market value of \$98,310,299. Securities totaling \$96,019,638 were rated AAA (sf) by Standard & Poor's. One security totaling \$2,290,661 was rated Aaa (sf) by Moody's Investors Service.
- Direct obligations of the United States Treasury. Investments in United States Treasury Securities at June 30, 2014, with a fair value of \$5,019,137 were rated Aaa by Moody's Investors Service.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. At June 30, 2014, the District had investments in the Florida Education Investment Trust Fund with a fair value of \$5,002,096; Morgan Stanley Prime Portfolio Institutional Class with a fair value of \$2,151,672; Morgan Stanley Government Portfolio Institutional Class with a fair value of \$119,535; Morgan Stanley Government Securities Institutional Class with a fair value of \$119,546; Goldman Sachs Financial Square Money Market Fund with a fair value of \$187,655; Federated Money Market Prime Obligation Fund with a fair value of \$187,654; Western Asset Institutional Cash Reserves with a fair value of \$187,654; and First American Government Obligations Fund with a fair value of \$50. All funds were rated AAAM by Standard & Poor's, except for Western Asset Institutional Cash Reserves which was rated Aaa-mf by Moody's Investors Service.
- Securities in open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940. The District had investments with a fair value of \$36,089,339 in the Core Fund at June 30, 2014. The Core Fund is a short-term United States Government bond fund. This fund was rated Aaa-bf by Moody's Investors Service.
- 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.

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

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book-entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy addresses custodial credit risk in that all securities shall be properly designated as an asset of the Board and held in safe-keeping by a third party custodian.

The District's investments totaling \$226,654,815 in money market funds, United States Treasury securities, obligations of United States Government agencies and instrumentalities, and domestic bonds and notes are held by the District's custodial agent but not in the name of the District.

➤ **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy does not limit the amount the District may invest in any one issuer. The District had investments that represent 5 percent or more of total investments (excluding obligations with the explicit guarantee of the U.S. Government, investment pools, and money market funds) as of June 30, 2014, as follows:

Issuer	Fair Value	Percentage of Total Investments, Primary Government
Obligations of United States Government Agencies and Instrumentalities:		
Federal National Mortgage Association	\$ 55,560,008	20.5%
Government National Mortgage Association	49,317,141	18.2%
Federal Home Loan Mortgage Corporation	17,885,267	6.6%
Domestic Bonds and Notes:		
Mortgage Backed and Mortgage Backed - Floating Rates:		
UBS Commercial Mortgage	33,883,577	12.5%
Morgan Stanley Capital	17,149,281	6.3%
Asset Backed-		
Chase Issuance Trust	20,074,400	7.4%

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C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 97,213,078	\$ 160,865	\$ 17,769	\$ 97,356,174
Land Improvements	22,717,599			22,717,599
Construction in Progress	12,948,469	62,028,563	34,447,907	40,529,125
Total Capital Assets Not Being Depreciated	132,879,146	62,189,428	34,465,676	160,602,898
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	8,519,955	38,011		8,557,966
Buildings and Fixed Equipment	2,235,332,537	35,469,523	371,591	2,270,430,469
Relocatables	13,838,461	2,342,519		16,180,980
Furniture, Fixtures, and Equipment	127,534,628	9,153,433	8,742,403	127,945,658
Motor Vehicles	56,320,087	2,246,926	2,164,807	56,402,206
Property Under Capital Leases	44,770,897			44,770,897
Audio Visual Materials and Computer Software	13,777,489	1,014,188	5,311,347	9,480,330
Total Capital Assets Being Depreciated	2,500,094,054	50,264,600	16,590,148	2,533,768,506
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,069,513	570,531		3,640,044
Buildings and Fixed Equipment	629,689,556	45,118,892	250,106	674,558,342
Relocatables	11,261,387	1,001,640		12,263,027
Furniture, Fixtures, and Equipment	92,056,738	9,003,772	6,692,842	94,367,668
Motor Vehicles	39,552,526	3,551,724	1,737,013	41,367,237
Property Under Capital Leases	31,425,782	6,702,997		38,128,779
Audio Visual Materials and Computer Software	12,486,386	506,711	4,187,573	8,805,524
Total Accumulated Depreciation	819,541,888	66,456,267	12,867,534	873,130,621
Total Capital Assets Being Depreciated, Net	1,680,552,166	(16,191,667)	3,722,614	1,660,637,885
Governmental Activities Capital Assets, Net	\$ 1,813,431,312	\$45,997,761	\$38,188,290	\$ 1,821,240,783

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

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Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 3,484,014
Student Personnel Services	64,979
Instructional Media Services	83,059
Instructional and Curriculum Development Services	57,829
Instructional Staff Training Services	16,713
Instructional Related Technology	86,765
School Board	1,352
General Administration	21,571
School Administration	18,785
Facilities Acquisition and Construction	6,770,324
Fiscal Services	11,369
Food Services	940,528
Central Services	215,566
Student Transportation Services	3,788
Operation of Plant	67,810
Maintenance of Plant	66,303
Administrative Technology Services	48,814
Community Services	210,248
Unallocated	<u>54,286,450</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 66,456,267</u>

D. Pension Obligations

1. 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 except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for

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normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
FRS, Special Risk Regular	3.00	19.06
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

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

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

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The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$40,131,586, \$41,940,208, and \$49,786,981, respectively, which were equal to the required contributions for each fiscal year.

There were 2,102 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$7,064,091, which was equal to the required contribution for the 2013-14 fiscal year.

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

2. Tax Deferral Plans and Other Benefits

The District requires mandatory participation in an Internal Revenue Service (IRS) Sections 401(a) and 403(b) qualified Special Pay Plan (Plan) for all employees entering DROP, retiring, or terminating employment with at least \$2,500 in accumulated special pay (e.g., sick leave pay, annual leave pay, incentive pay, etc.). Contributions are based upon current IRS regulations and limits. Federal income taxes on Plan contributions are deferred until distributions are taken. Employee contributions to the 401(a) plan were \$10,416,501 and employee contributions to the 403(b) plan were \$1,569,092 for the period ended June 30, 2014.

In addition, the District offers voluntary tax deferral programs which enable employees to save for retirement with two pre-tax options, a traditional 403(b) plan and a 457(b) plan, and an after-tax option, a Roth 403(b) plan. Contributions are allowed based upon the current IRS regulations and limits for the chosen plan. The deferred earnings are placed in an investment vehicle selected by the employee, with principal and interest tax deferred until funds are withdrawn. The contributions for the tax deferred annuity 403(b) and 457 plans for the fiscal year ended June 30, 2014, were \$9,292,466 and \$1,925,125, respectively. Contributions to the Roth 403(b) plan totaled \$1,408,014 for 2014.

The District makes contributions to employees' health insurance payments based upon elected coverage. The total amount contributed on behalf of the employees, for the fiscal year ended June 30, 2014, was \$90,347,440.

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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 and eligible dependents are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) 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 Bargaining Leadership Team 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, 625 retirees received other postemployment benefits. The District provided required contributions of \$2,712,086 toward the annual OPEB cost, net of retiree contributions totaling \$5,140,110, which represents 0.9 percent of covered payroll.

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

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Description	Amount
Normal Cost (service cost for one year)	\$ 3,096,796
Amortization of Unfunded Actuarial	
Accrued Liability	1,999,642
Interest on Normal Cost and Amortization	<u>203,858</u>
Annual Required Contribution	5,300,296
Interest on Net OPEB Obligation	458,744
Adjustment to Annual Required Contribution	<u>(409,599)</u>
Annual OPEB Cost (Expense)	5,349,441
Contribution Toward the OPEB Cost	<u>(2,712,086)</u>
Change in Net OPEB Obligation	2,637,355
Net OPEB Obligation, Beginning of Year	<u>11,468,589</u>
Net OPEB Obligation, End of Year	<u><u>\$ 14,105,944</u></u>

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

Fiscal Year	Annual OPEB Cost	OPEB Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 3,528,870	\$ 3,488,155	98.8%	\$ 8,333,732
2012-13	5,410,299	2,275,442	42.1%	11,468,589
2013-14	5,349,441	2,712,086	50.7%	14,105,944

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$48,500,382, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$48,500,382 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$570,224,300, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.5 percent.

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

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

The District's OPEB actuarial valuation as of July 1, 2013 used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year and an inflation rate of 2.5 percent. The initial annual healthcare cost trend rate is 8.5 percent beginning in the 2013-14 fiscal year, grading in various increments to an ultimate rate of 5 percent for the fiscal year ending June 30, 2025. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2014, was 23 years.

F. Construction and Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2014:

<u>Major Funds</u>				
	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<u>General</u>				
<u>\$ 7,030,758</u>	<u>\$ 908,356</u>	<u>\$64,819,649</u>	<u>\$ 2,483,249</u>	<u>\$ 75,242,012</u>

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

Project	Contract Amount	Completed to Date	Balance Committed
Bauder Elementary School - Renovations	\$ 5,785,272	\$ 1,395,641	\$ 4,389,631
Largo High School - Replacement Facility	17,889,230	7,168,377	10,720,853
Madeira Beach Elementary School - Renovations	3,660,760	900,204	2,760,556
Oldsmar Elementary School - Mechanical/Roofing	10,366,263	7,795,208	2,571,055
Seminole High School - Renovations	8,603,478	4,015,172	4,588,306
Tarpon Springs Middle School - Renovations	14,425,751	10,751,354	3,674,397
Palm Harbor University High School - New Classrooms	12,633,962	1,510,787	11,123,175
Subtotal	73,364,716	33,536,743	39,827,973
Other Projects (1)	15,427,391	6,992,382	8,435,009
Total	\$ 88,792,107	\$ 40,529,125	\$ 48,262,982

Note: (1) Individual projects with current commitment balances less than \$800,000 at June 30, 2014.

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District for automobile liability and general liability coverage. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

A liability in the amount of \$13,600,518 was actuarially determined for estimated insurance claims payable for claims incurred, but not reported for workers' compensation, general liability, and automobile liability. The estimated insurance claims payable was recorded using a 4 percent discount.

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

Fiscal Year	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012-13	\$ 16,655,969	\$ 1,383,096	\$ (3,983,491)	\$ 14,055,574
2013-14	14,055,574	5,804,131	(6,259,187)	13,600,518

Property protection, boiler and machinery, errors and omissions, employment practices liabilities, employee dishonesty, and other coverages deemed necessary by the Board are provided through purchased commercial insurance with deductibles for each line of coverage. Settled claims resulting from the risks described above have not exceeded commercial coverage in any of the past three fiscal years.

The District's health and hospitalization, dental, life, vision, and income protection coverages for District employees are being offered through purchased commercial insurance.

H. Obligation Under Capital Leases

Data processing equipment totaling \$44,770,897 is being acquired under capital leases.

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

Fiscal Year Ending June 30	Total	Principal	Interest
2015	\$ 4,720,844	\$ 4,523,185	\$ 197,659
2016	956,818	923,862	32,956
2017	49,169	47,739	1,430
Total Minimum Lease Payments	<u>\$ 5,726,831</u>	<u>\$ 5,494,786</u>	<u>\$ 232,045</u>

The imputed interest rate ranges from 5.27 to 7.57 percent.

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I. Changes in Short-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 83,000,000	\$ 83,000,000	\$ 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.

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

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 18,970,000	5	2020
Series 2010A, Refunding	105,000	4 - 5	2021
Total Bonds Payable	\$ 19,075,000		

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2015	\$ 3,988,600	\$ 3,035,000	\$ 953,600
2016	4,001,850	3,200,000	801,850
2017	4,011,850	3,370,000	641,850
2018	3,993,350	3,520,000	473,350
2019	3,197,350	2,900,000	297,350
2020-2021	3,203,250	3,050,000	153,250
Total	\$ 22,396,250	\$ 19,075,000	\$ 3,321,250

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2. Changes in Long-Term Liabilities:

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	\$ 14,055,574	\$ 5,804,131	\$ 6,259,187	\$ 13,600,518	\$ 3,912,638
Obligations Under Capital Leases	12,546,264		7,051,478	5,494,786	4,523,185
Bonds Payable	21,985,000		2,910,000	19,075,000	3,035,000
Compensated Absences Payable	89,401,531	11,069,914	11,001,249	89,470,196	11,001,250
Other Postemployment Benefits Payable	11,468,589	5,349,441	2,712,086	14,105,944	
Total Governmental Activities	<u>\$ 149,456,958</u>	<u>\$ 22,223,486</u>	<u>\$ 29,934,000</u>	<u>\$ 141,746,444</u>	<u>\$ 22,472,073</u>

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

K. Fund Balance Reporting

The following is a schedule of fund balances by category at June 30, 2014:

	General	Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
		Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement		
Fund Balances					
Nonspendable:					
Inventories	\$ 4,065,561	\$		\$ 905,268	\$ 4,970,829
Prepaid Items	2,181,768			77	2,181,845
Permanent Fund				150,185	150,185
Restricted:					
State Required Carryover	795,728				795,728
Tax Levy	1,717,754				1,717,754
Workforce Development	22,967,727				22,967,727
Debt Service				494,230	494,230
Capital Projects			166,086,707	2,066,470	168,153,177
Assigned:					
Purchase Obligations	7,030,758				7,030,758
Central Printing	909,279				909,279
Carryforwards	11,823,324				11,823,324
Unassigned	<u>5,857,921</u>				<u>5,857,921</u>
Total Fund Balances	<u>\$ 57,349,820</u>	<u>\$ 0</u>	<u>\$ 166,086,707</u>	<u>\$ 3,616,230</u>	<u>\$ 227,052,757</u>

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.

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- **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.

L. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 64,251,969	\$ 8,977,188
Special Revenue:		
Federal Economic Stimulus	76,007	2,663,636
Capital Projects:		
Local Capital Improvement	689,343	39,142,084
Nonmajor Governmental	865,198	16,271,661
Internal Service	3,611,541	2,200,563
Fiduciary	191,805	430,731
Total	<u>\$ 69,685,863</u>	<u>\$ 69,685,863</u>

Interfund balances are a result of expenditures, such as warehouse delivery charges, central printing, and maintenance work orders, which were paid by one fund for another fund, as well as adjustment of self-insurance reserves, reclassifications of expenditures between capital project funds, and short-term cash flow borrowing. All balances are expected to be repaid within one year.

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M. 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	\$ 206,836,767
Categorical Educational Program - Class Size Reduction	112,947,139
Workforce Development Program	26,412,120
Motor Vehicle License Tax (Capital Outlay and Debt Service)	4,527,186
School Recognition	4,231,439
Charter School Capital Outlay	2,189,300
Voluntary Prekindergarten	2,009,585
Discretionary Lottery Funds	1,013,935
Mobile Home License Tax	571,656
Food Service Supplement	541,590
Adults with Disabilities	372,969
Miscellaneous	2,273,613
Total	<u><u>\$ 363,927,299</u></u>

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

2. Property Taxes

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.312	\$ 323,581,727
Basic Discretionary Local Effort	0.748	45,564,596
Voted School Tax:		
Local Referendum	0.500	30,457,617
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	91,372,852
Total	<u>8.060</u>	<u>\$ 490,976,792</u>

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

N. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 49,256,952	\$
Capital Projects:		
Local Capital Improvement		37,017,402
Nonmajor Governmental		10,037,550
Internal Service		2,202,000
Total	<u>\$ 49,256,952</u>	<u>\$ 49,256,952</u>

A \$37,017,402 transfer made from the Capital Projects – Local Capital Improvement Fund was to cover maintenance, capital outlay expenditures, and to pay for property casualty insurance that were incurred in the General Fund. The \$10,037,550 transfer from the nonmajor governmental funds was to transfer proceeds from the sale of property and to cover capital outlay disbursements to the charter schools. There was an Internal Service Fund transfer of \$2,202,000 to cover various expenditures in the General Fund.

IV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

A. Litigation

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

B. Other Loss Contingencies

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims should become a liability of the General Fund or other applicable funds. The Federal and State questioned costs identified in the audit for the fiscal year end June 30, 2014, totaled \$470,512 and \$1,164,325 respectively.

V. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note (Note) in the amount of \$85,000,000. The proceeds will be used for operating expenses for the fiscal year ending June 30, 2015. The closing of the Note took place on November 6, 2014, and the Note is to mature on June 30, 2015. The stated interest rate is 0.75 percent.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 322,000	\$ 351,579	\$ 351,579	\$
Federal Through State	2,715,324	4,308,419	4,308,418	(1)
State	362,125,552	356,630,774	356,468,507	(162,267)
Local:				
Property Taxes	383,619,783	386,130,007	386,130,007	
Miscellaneous	17,417,341	18,321,397	18,322,669	1,272
Total Local Revenues	401,037,124	404,451,404	404,452,676	1,272
Total Revenues	766,200,000	765,742,176	765,581,180	(160,996)
Expenditures				
Current - Education:				
Instruction	533,655,790	544,924,310	541,161,978	3,762,332
Student Personnel Services	29,668,478	32,545,613	32,410,816	134,797
Instructional Media Services	9,501,128	7,751,159	7,673,453	77,706
Instruction and Curriculum Development Services	9,369,541	10,130,462	10,087,580	42,882
Instructional Staff Training Services	3,422,678	5,169,794	5,145,919	23,875
Instruction Related Technology	2,388,931	4,475,987	4,429,149	46,838
School Board	1,291,109	1,516,910	1,497,268	19,642
General Administration	2,341,690	2,526,525	2,481,305	45,220
School Administration	51,224,302	53,213,162	52,645,095	568,067
Facilities Acquisition and Construction	695,032	524,196	486,586	37,610
Fiscal Services	3,893,338	4,257,002	4,180,945	76,057
Food Services		129,935	129,935	
Central Services	11,074,793	12,441,748	11,785,219	656,529
Pupil Transportation Services	31,470,740	33,852,707	33,811,743	40,964
Operation of Plant	73,696,254	74,982,369	74,785,579	196,790
Maintenance of Plant	21,200,794	23,221,423	22,195,620	1,025,803
Administrative Technology Services	4,708,126	5,476,999	5,202,232	274,767
Community Services	691,402	799,191	798,491	700
Fixed Capital Outlay:				
Other Capital Outlay		3,836,877	3,836,877	
Debt Service:				
Interest and Fiscal Charges		114,609	114,609	
Total Expenditures	790,294,126	821,890,978	814,860,399	7,030,579
Deficiency of Revenues Over Expenditures	(24,094,126)	(56,148,802)	(49,279,219)	6,869,583
Other Financing Sources				
Transfers In	30,000,000	49,256,952	49,256,952	
Insurance Loss Recoveries	300,000	167,151	167,151	
Total Other Financing Sources	30,300,000	49,424,103	49,424,103	
Net Change in Fund Balances	6,205,874	(6,724,699)	144,884	6,869,583
Fund Balances, Beginning	57,194,126	57,194,126	57,204,936	10,810
Fund Balances, Ending	\$ 63,400,000	\$ 50,469,427	\$ 57,349,820	\$ 6,880,393

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 13,324,241	\$ 13,824,086	\$ 11,098,760	\$ (2,725,326)
13,324,241	13,824,086	11,098,760	(2,725,326)
2,609,440	8,423,381	7,848,589	574,792
97,851	159,253	152,042	7,211
	25,527	24,673	854
6,714,460	1,595,711	1,161,564	434,147
1,010,327	1,426,553	549,778	876,775
584,946	819,153	275,508	543,645
1,732,294	592,528	548,453	44,075
110,481	205,693	105,402	100,291
20,948	23,698	23,641	57
37,597			
347,703	366,115	227,580	138,535
7,456	7,456	5,113	2,343
18,632	18,632	16,845	1,787
	765	761	4
32,106	18,784	17,974	810
	140,837	140,837	
13,324,241	13,824,086	11,098,760	2,725,326
\$ 0	\$ 0	\$ 0	\$ 0

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll [(B-A)/C]
	(A)	(B)	(B-A)	(A/B)	(C)	
July 1, 2011	\$ 0	\$ 31,732,418	\$ 31,732,418	0.0%	\$ 555,740,506	5.7%
July 1, 2012	0	49,237,265	49,237,265	0.0%	557,282,119	8.8%
July 1, 2013	0	48,500,382	48,500,382	0.0%	570,224,300	8.5%

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

**PINELLAS 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

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

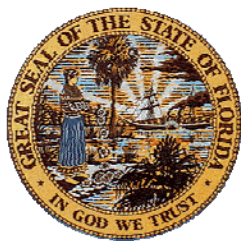
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	13002	\$ 7,223,770	\$
National School Lunch Program	10.555(2)	13001, 13003	26,903,926	
Summer Food Service Program for Children	10.559	13006, 13007	1,183,151	
Total Child Nutrition Cluster			35,310,847	
Florida Department of Health:				
Child and Adult Care Food Program	10.558	A-4214	243,854	
Total United States Department of Agriculture			35,554,701	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	1,992	
Federal Pell Grant Program	84.063	N/A	4,356,960	
Fund for the Improvement of Education	84.215	N/A	463,564	
Teacher Incentive Fund	84.374	N/A	1,300,677	
Total Direct			6,123,193	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	25,000,941	940,758
Special Education - Preschool Grants	84.173	266, 267	864,230	
Total Special Education Cluster			25,865,171	940,758
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	3,097,063	
ARRA - School Improvement Grants, Recovery Act	84.388	126	822,945	
Total School Improvement Grants Cluster			3,920,008	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	1,875,538	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	31,312,569	339,856
Career and Technical Education - Basic Grants to States	84.048	161	1,236,817	
Education for Homeless Children and Youth	84.196	127	113,956	
Charter Schools	84.282	298	1,479,386	1,479,386
Twenty-First Century Community Learning Centers	84.287	244	314,783	
English Language Acquisition State Grants	84.365	102	692,419	
Improving Teacher Quality State Grants	84.367	224	3,106,088	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395(3)	RG311, RG411, RL111, RS611	10,192,131	
Putnam County District School Board:				
Special Education - State Personnel Development	84.323	None	259,576	
University of South Florida:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395(3)	None	85,301	
Total Indirect			80,453,743	2,760,000
Total United States Department of Education			86,576,936	2,760,000
United States Department of Health and Human Services:				
Direct:				
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501(4)	N/A	55,301	
Indirect:				
Florida Department of Children and Families:				
Child Care and Development Block Grant	93.575	LC 915	141,642	
Refugee and Entrant Assistance - State Administered Programs	93.566	LK 164, LK178	457,647	
Total United States Department of Health and Human Services			654,590	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	224,382	
Navy Junior Reserve Officers Training Corps	None	N/A	79,246	
Marine Junior Reserve Officers Training Corps	None	N/A	45,959	
Total United States Department of Defense			349,587	
Total Expenditures of Federal Awards			\$ 123,135,814	\$ 2,760,000

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 \$2,667,619 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act: Total CFDA No. 84.395 expenditures: \$10,277,432.

(4) Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures: Grant Number C12CS25491.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pinellas County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 9, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

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

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

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 9, 2015



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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2014-001 through 2014-005. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2014-001 and 2014-002 that we consider to be significant deficiencies.

Management's Response

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA

Tallahassee, Florida

March 9, 2015

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.027 and 84.173	Special Education Cluster
84.048	Career and Technical Education – Basic Grants to States
84.282	Charter Schools
84.367	Improving Teacher Quality State Grants
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

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

ADDITIONAL MATTERS

Finding No. 1: Investment Controls

Effective investment monitoring provides assurance that investment purchases and sales conform to Board-approved investment strategies and are in compliance with applicable regulatory requirements. The Board established policies authorizing the Manager of Cash and Investments (Manager) to make investment decisions, under the supervision of the Associate Superintendent Finance and Business Services (ASFBS), and requiring the ASFBS to review all investment transaction confirmations. During the 2013-14 fiscal year, the District's investment program included 44 investment security purchases totaling \$342.2 million and 13 investment security sales totaling \$108.9 million. At June 30, 2014, the District had \$271.1 million of investments, including obligations of United States Government agencies and instrumentalities, corporate debt, mutual funds, United States Treasury securities, and shares in the State Board of Administration's Florida PRIME and Fund B Surplus Funds Trust Fund investment pools.

To determine whether District records evidenced timely approval of investment transactions, we tested 33 transactions, including 26 purchases totaling \$229.1 million and 7 sales totaling \$54.4 million. While the sales tested were timely approved by the ASFBS, 4 investment purchases totaling \$40.2 million were not timely approved by the ASFBS (approved from 60 to 91 days after the purchases were made). In addition, District records evidenced that 8 of the purchases tested totaling \$46.8 million were approved by the ASFBS, but did not evidence the approval date.

Timely supervisory approval of investment purchases helps ensure that purchases conform to Board-approved investment strategies and are in compliance with applicable regulatory requirements. Similar findings were noted in our report No. 2012-150 and the 2012-13 financial audit report.

Recommendation: The District should enhance its procedures to ensure timely, documented supervisory approval of investment purchases.

Finding No. 2: Inventories – Separation of Duties

At June 30, 2014, the District maintenance, warehouse, and transportation department inventories totaled \$1,775,125, \$1,072,119, and \$932,491 respectively. Controls over these inventories could be enhanced as discussed below.

The District did not provide for an appropriate separation of duties as two employees in the Maintenance Department, three employees in the Warehouse Department, and five employees in the Transportation Department had unrestricted access to their respective inventories and maintained perpetual inventory records over these inventories. Also, one of the two Maintenance Department employees and one of the three Warehouse Department employees had the authority to approve purchase requisitions. While the Purchasing Department independently approves purchase requisitions for goods or services to be ordered, there is an increased risk given the inappropriate separation of duties that purchase requisitions may be initiated for non-District purposes. In addition, while District

procedures provide for periodic counts of these inventories, District personnel indicated that, because of staffing constraints, these counts are coordinated by the same employees who maintained perpetual inventory records. Under these conditions, there is an increased risk that errors or fraud, should they occur, would not be timely detected.

Subsequent to our inquiry in June 2014, we were advised that District personnel independent of the inventory process began documenting reviews of inventory purchases and adjustments to these inventories. Similar findings were noted in our report Nos. 2009-186 and 2012-150.

Recommendation: The District should enhance procedures to provide for an appropriate separation of duties over maintenance, warehouse, and transportation department inventories to the extent practical with existing personnel and continue to enhance implementation of compensating controls such as periodic review of inventory purchases and issues by personnel independent of the inventory function.

Finding No. 3: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay related purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; and purchases of school buses and certain other vehicles subject to established limits. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2013-14 fiscal year, the District reported LCI Fund expenditures totaling \$86,264,276 and transfers totaling \$37,017,402 to the General Fund. We reviewed LCI Fund expenditures totaling \$17,067,600 and reviewed support for all transfers to determine their propriety. While our review disclosed that ad valorem tax levy proceeds were generally used as required, we noted that the District transferred \$5,443,406 to the General Fund for vehicle maintenance salaries and vehicle repair parts, which are not an allowable use of ad valorem tax levy proceeds. In addition, for the 2012-13 fiscal year, the District transferred \$4,947,581 to the General Fund for vehicle maintenance salaries and vehicle repair parts. District personnel indicated that the law authorizes districts to use these proceeds to pay private entities to operate and maintain buses. District personnel also indicated that the law authorizes districts to use these proceeds to pay for buses and other vehicles and that maintaining these vehicles is a reasonable use of these proceeds. While the statute authorizes use of these proceeds to pay private entities to operate and maintain buses, and to purchase buses and other vehicles subject to established limits, the statute does not authorize the District to use these proceeds for vehicle maintenance.

Subsequent to our inquiry, District personnel identified expenditures that were not initially paid from ad valorem tax levy proceeds but could have been paid from these proceeds. For example, such expenditures included student system software with a life that exceeded five years and used for Statewide reporting requirements, maintenance salaries and parts for District facilities, and salaries for construction activities that could be considered to offset the \$10,390,987 initially identified as unallowable expenditures. After consideration of these allowable ad valorem tax levy uses, there remained \$686,330 and \$477,995 for 2013-14 and 2012-13 fiscal year transfers, respectively, or a total of \$1,164,325 that represent questioned costs of ad valorem tax levy proceeds.

Without adequate controls to ensure that ad valorem tax levy proceeds are expended only for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions. Similar findings were noted in our report Nos. 2009-186 and 2012-150.

Recommendation: The District should enhance controls to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document to the Florida Department of Education the allowability of the \$1,164,325 of questioned costs or restore this amount to the LCI Fund.

Finding No. 4: Food Service Program Financial Condition

The District operates a food service program at each District school that provides meals to participating students and staff. The program, accounted for in the Special Revenue – Food Service Fund (Fund), generates revenue from the sale of food, Federal reimbursements, and State supplements. The Fund's primary operating expenditures include salaries and benefits, and payments for food. Also, the District participates in the Community Eligibility Provision Program, which provides free meals to all students at eligible schools.

The program experienced increasing operating losses over the past three fiscal years. The program's financial activities and ending fund balances for the 2011-12 through 2013-14 fiscal years are summarized in the table below:

Fiscal Year Ended June 30	Revenues	Expenditures	Operating Losses	Other Financing Sources - Sale of Capital Assets	Nonspendable Ending Fund Balance	Restricted Ending Fund Balance	Total Ending Fund Balance
2012	\$ 41,663,790	\$ 42,028,870	\$ (365,080)	\$	\$ 1,186,078	\$ 14,376,783	\$ 15,562,861
2013	44,078,564	49,580,407	(5,501,843)		1,045,172	9,015,846	10,061,018
2014	47,487,851	57,184,074	(9,696,223)	540,550	905,345		905,345

In addition, at June 30, 2014, pursuant to Section 1011.09(2), Florida Statutes, the Fund temporarily borrowed \$1,340,870 from the General Fund and \$91,221 from the Internal Service Fund. Contributing factors for the operating loss during the 2013-14 fiscal year were increased salaries and benefits expenditures from raises, promotions, new positions, and overtime; decreased revenues from full-pay students at schools participating at the 58 schools that qualified as Community Eligibility Provision schools; dinner programs provided at no cost to students enrolled in the afterschool programs at 21 schools; and unlimited fruits and vegetables provided at no cost to students whose meals qualified for Federal reimbursement.

District personnel are aware of the program's financial condition and have taken actions to improve the program fund balance in the 2014-15 fiscal year such as eliminating 42 food service positions, limiting overtime, monitoring the month-end inventories at the school cafeterias to identify over-ordering, monitoring production reports for excess food production, and other cost saving measures. Continued decline of the fund balance could require use of additional General Fund resources to subsidize the school food service program and reduce funds available for the District's other educational programs.

Recommendation: The District should continue its efforts to improve the school food service program's financial condition.

Finding No. 5: Bus Drivers

State Board of Education (SBE) Rule 6A-3.0141(4) and (9), Florida Administrative Code (FAC), require that the District at least annually ensure that personnel, prior to transporting students on school buses, hold valid commercial driver licenses with passenger and school bus endorsements and be physically capable of operating the vehicles as determined by a physician and documented on a Florida Department of Education (FDOE) physical examination

form. SBE Rule 6A-3.0141(6), FAC, requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to initial employment and the first day of the fall semester, and thereafter using automated weekly updates. Pursuant to Section 324.021, Florida Statutes, the FDHSMV suspends the driver licenses of motor vehicle owners if the FDHSMV records do not evidence that the vehicle owner maintained required insurance coverage.

During the 2013-14 fiscal year, the District employed 525 bus drivers, and District personnel periodically reviewed bus driver history records to determine that bus drivers were appropriately licensed. While District records indicated that monitoring procedures over school bus drivers were generally adequate, our comparison of District records to FDHSMV records disclosed that these procedures could be improved, as follows:

- One bus driver drove regularly scheduled daily bus routes while the driver's license was suspended from January 21, 2014, to June 16, 2014, for failure to pay a traffic fine. District personnel initially identified the suspension in a January 2014 weekly report but assumed that the suspension was resolved because they did not notice it on subsequent weekly reports until June 10, 2014. Subsequently, District personnel sent a notification letter to the bus driver and, after paying the fine, the driver had the license restored on June 17, 2014.
- Another bus driver drove regularly scheduled daily bus routes while the driver's license was disqualified from December 17, 2013, to May 5, 2014, for not maintaining and timely submitting a valid FDOE physical examination form. Subsequent to our inquiry, District personnel determined that the bus driver was not in the database system used for the weekly report review. The driver subsequently submitted the required form and the disqualification was removed from the license on May 6, 2014.
- A third bus driver drove regularly scheduled daily bus routes while the driver's license was disqualified from July 25, 2013, to August 1, 2013, for not maintaining required insurance. District personnel indicated that the employee who received the weekly notification was on leave and a notification letter was not sent to the bus driver. The driver subsequently obtained and provided proof of insurance to the FDHSMV and the disqualification was removed from the license on August 2, 2013.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel appropriately monitor bus driver history records and ensure the drivers meet the requirements to operate school buses.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive buses.

Finding No. 6: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay must include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation. The statute also requires that contracts or employment agreements contain a provision that prohibits severance pay if the individual is fired for misconduct as defined in Section 443.036(29), Florida Statutes.

Section 2 of administrators and supervisors, noninstructional managerial, and confidential employees' contracts provide that upon recommendation of the Superintendent, the Board may terminate the contract upon lump sum payment of the unpaid balance of the salary and benefits payable through the end of the contract term. As these provisions allowed for severance pay to exceed 20 weeks of salary, the provisions did not appear to be consistent with Section 215.425(4)(a), Florida Statutes. Subsequent to our review, the District's attorney modified the employment agreements and removed the termination language from the contracts.

Recommendation: The District should continue its efforts to ensure that future employment agreements contain severance pay provisions that are in accordance with Section 215.425(4)(a), Florida Statutes.

Finding No. 7: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, District personnel indicated that the Internal Audit Department trained school bookkeepers of what would constitute a conflict of interest and maintained a list of employee-owned or close family member businesses based on discussions with the bookkeepers.

Board members and the Superintendent, Deputy Superintendent, Associate Superintendent Finance and Business Services, and purchasing agents were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While the statements of financial interests were filed as required, these statements were not provided to the Purchasing Department for review. Providing for routine review and consideration of required statements of financial interest by the Purchasing Department would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interests by the Purchasing Department for making procurement decisions.

Finding No. 8: Contractual Services

The Board routinely enters into contracts for goods and services and internal controls have generally been designed and implemented to ensure payments are consistent with contract terms and conditions. For the 2013-14 fiscal year, payments for contractual services totaled \$21.8 million.

To determine the propriety of payments for contractual services, we tested expenditures totaling \$477,143 for 10 consultant service contracts and \$1,513,023 for 15 maintenance service contracts. Our review disclosed inadequate controls over payments for transportation call center services. The Board entered into a two-year contract in June 2012 with a company to provide employees for a transportation call center to answer calls regarding bus routes and to transfer questions about transportation concerns to appropriate supervisors for the 2012-13 and 2013-14 fiscal years. The contract provided that the District would be charged \$10.55 per hour for these services; however, because District personnel did not reconcile amounts billed to contract terms and conditions, the District was billed and paid \$12.34 per hour, resulting in overpayments of \$6,838 and \$5,420 for the 2012-13 and 2013-14 fiscal years, respectively. Without effective procedures to reconcile amounts billed to contract terms and conditions, prior to payment, there is an increased risk of overpayment or that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure amounts billed reconcile to contract terms and conditions prior to payment. In addition, the District should seek recovery of the overpayments totaling \$12,258.

Finding No. 9: Workforce Development Funds

Chapter 2013-40, Laws of Florida, Specific Appropriations 10, 115, 117, and 117A of the General Appropriations Act, provided that workforce development program funds must not be used to support K-12 programs or District K-12 administrative indirect costs. For the 2013-14 fiscal year, the Legislature appropriated State funding totaling \$26.4 million to the District for this program.

To determine the propriety of workforce development program funds expenditures, we tested 30 expenditures totaling \$1.7 million for the 2013-14 fiscal year. Our test disclosed \$106,658 of expenditures for 100 percent of an instructional specialist's salaries and benefits and \$3,046 for 25 percent of a family and community liaison employee's salaries and benefits. The District did not maintain personnel activity reports or equivalent documentation for these employees to evidence the actual time the employees devoted to workforce development programs. Based on our interviews, 30 percent of the instructional specialist's work time was devoted to the workforce development program and none of the family and community liaison employee's work time was devoted to workforce development programs. District personnel indicated these expenditures were paid from workforce development programs in error, resulting in \$77,707 of questioned costs paid from workforce development programs.

Subsequent to our inquiry, the District revised these employees' account coding for future salary expenditures and reimbursed the workforce development program for the questioned costs.

Recommendation: The District should continue its efforts to enhance its procedures to comply with the restrictions governing workforce development program funds.

Finding No. 10: 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 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 shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2013-14 fiscal year, the District reported to the FDOE 3,116,819 instructional contact hours for 11,336 students enrolled in 825 adult general education classes. We randomly selected a representative sample of 7,846 contact hours reported for 30 students enrolled in 53 adult general education classes to test the accuracy of the District's reporting procedures. Our test disclosed that the District over-reported 1,120 hours for 17 students enrolled in 30 classes and under-reported 252 hours for 2 students enrolled in 1 class, or 868 net hours over-reported. District personnel indicated that these reporting errors occurred primarily because District personnel recorded incorrect student withdrawal dates into the data management system and clerical errors. 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. A similar finding was noted in our report No. 2012-150.

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 education hours misreported and contact the FDOE for proper resolution.

Finding No. 11: Virtual Instruction Program - Policies and Procedures

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

The District operated a VIP and contracted with a FDOE-approved provider to provide full-time services to students in grades kindergarten through 5, and operated a VIP to provide full-time and part-time services to students in grades 6 through 12. During the 2013-14 fiscal year, 401 full-time and 137 part-time students participated in the VIP. District records (e.g., parent guides and student and parent virtual instruction handbooks) identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment and withdrawal information. However, the District did not have comprehensive, written VIP policies and procedures to document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations. Written policies and procedures could also provide guidance for monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require District personnel to confirm Florida teaching certificates with the FDOE and to survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services.

Comprehensive, written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in Finding Nos. 12 through 16.

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

Finding No. 12: Virtual Instruction Program - Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with an FDOE-approved VIP provider contain certain provisions. While the District entered into a contract with a FDOE-approved provider, the contract lacked certain necessary provisions. District personnel indicated that they were unaware the contract needed to include the following provisions:

- The contract did not provide for the District to monitor the provider's compliance with contract terms or quality of virtual instruction. Without such provisions, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.
- The contract contained requirements for the provider to implement, maintain, and use appropriate, administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Rights and Privacy Act, to maintain the confidentiality of education records. However, the contract did not specify any minimum required security controls that the District expected to

be in place to protect the confidentiality, availability, and integrity of critical and sensitive education data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other information technology controls may occur.

- The contract did not include provisions for data quality requirements. The District's VIP provider maintains significant amounts of education data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be available in a timely manner. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.

Recommendation: The District should ensure that necessary provisions are included in contracts with FDOE-approved VIP providers.

Finding No. 13: Virtual Instruction Program - Options

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

The District provided students in grades kindergarten through 5 two options that offered full-time instruction, and provided students in grades 6 through 12 one option that offered full-time and part-time instruction. As a result, the District did not provide all students in all grade levels at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and limited student access to the different virtual instruction types.

Recommendation: The District should ensure that at least the minimum number of VIP options is offered as required by law.

Finding No. 14: Virtual Instruction Program - Written Parental Notifications

Section 1002.45(10), Florida Statutes, requires that the District provide information to parents and students about their right to participate in a VIP. Further, Section 1002.45(1)(b), Florida Statutes, requires the District to provide parents with timely, written notifications of the open enrollment periods for the VIP.

For the 2013-14 school year, District personnel indicated that there were several communication methods used to provide information about the District's VIP to parents and students. Such communication included parents' guides and information posted on the District's Web site. While these methods indicate efforts by District personnel to communicate with parents and students about the VIP, District records did not evidence that written notifications were provided directly to parents. Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 15: Virtual Instruction Program - Student Compulsory Attendance

Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify attendance. The District generally had control procedures to appropriately verify student attendance for the District's VIP; however, controls over contracted VIP student attendance could be improved.

During the 2013-14 school year, the District reported 112 students enrolled with a FDOE-approved VIP provider; however, District records did not evidence verification of daily attendance for those students. Subsequent to our inquiry, District personnel obtained a report from the VIP provider that summarized attendance for the 2013-14 school year; however, the report did not evidence that each student met the compulsory attendance requirements. Absent effective procedures to verify student attendance and records documenting such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.

Recommendation: The District should establish procedures requiring documented verification that students enrolled in the VIP complied with compulsory attendance requirements as prescribed by law.

Finding No. 16: Virtual Instruction Program - Computing Resources

Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home.

District personnel indicated that no requests were made for Internet access during the 2013-14 school year. District personnel also indicated that they informed families that students could use the Internet at schools and that families requesting assistance for Internet access would be provided an Internet contractor brochure that explains how families with students eligible for free or reduced lunches could receive discounted Internet rates. However, District procedures did not provide the families reimbursements for Internet costs incurred. District records did not evidence that the District offered Internet services to eligible VIP students free of charge, contrary to law. Without appropriately providing parents of students in a VIP the availability of Internet access, students may not have the computing resources required to successfully complete VIP courses.

Recommendation: The District should enhance its procedures to ensure that VIP students and their parents are properly notified of the availability of Internet access and that qualified VIP students are provided Internet access.

Finding No. 17: Information Technology – Access Privileges

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

Our review of selected access privileges to the District's business application, including finance and human resources (HR) applications, disclosed that the business application account had the ability to update all critical transactions within the finance application. Although the District's security administrator used the business application account to

provide system support to end users, complete update access privileges within the finance application was contrary to an appropriate separation of duties and was not necessary for the security administrator's day-to-day responsibilities. A payroll operations managing officer also had the ability to perform incompatible functions within the HR application through critical transactions, including creating a new employee, adding an employee to a position, changing employee information, inputting time, adjusting rate of pay, entering manual check information, and initiating manual payroll processing. In addition, the District had not developed procedures for the periodic review of access privileges.

The District had certain controls (e.g., supervisory monitoring of expenditures) to compensate, in part, for the above deficiencies, and our analytical procedures and tests of expenditures and salaries did not disclose any errors or fraud from the above deficiencies; however, our procedures cannot substitute for management's responsibility to maintain adequate internal controls. The existence of the above-noted inappropriate and unnecessary access privileges indicated a need for a periodic review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to our inquiry, District management changed the access privileges for the business application account to inquiry only and removed the payroll operations managing officer's ability to create an employee and change employee information. Similar findings were noted in our report No. 2012-150 and the 2012-13 financial audit report.

Recommendation: The District should develop procedures for the periodic review of access privileges and ensure that assigned access privileges restrict employees to only those functions necessary for their assigned job responsibilities.

Finding No. 18: Information Technology - Security Program

An entitywide program for security planning and management is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks. The program establishes a framework and continuing cycle for assessing risk, developing and implementing effective security policies and procedures, and monitoring the sufficiency of policies and procedures. Practices that help ensure the effective implementation and monitoring of information security policies include addressing all IT-related functions and having the approval of senior management.

As part of its ongoing efforts to implement an information security management program, the District's Security Council, composed of Technology and Information Systems staff, developed written procedures for IT functions such as account management, application security, data protection, security incident response and application development. While these procedures addressed application development, they did not include procedures for developing an application or managing changes. As of January 2015, District management indicated that some of the related procedures had been finalized by the Security Council and approved and that finalization and approval of the remaining procedures are anticipated by June 30, 2015. District management also indicated that the Security Council is in the process of developing a written systems development life cycle procedure that will include procedures for developing an application and managing changes.

The absence of adequate security program procedures lessens the District's assurance that IT controls will be followed consistently and in a manner pursuant to management's expectations. A similar finding was noted in the 2012-13 financial audit report.

Recommendation: The District's IT security program procedures should be completed and approved to ensure the performance of the IT functions described above in accordance with management's expectations.

Finding No. 19: Information Technology – Security Controls – User Authentication

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

Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were communicated to District management in connection with our report Nos. 2009-186 and 2012-150.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$289,312 (CFDA 84.027)

Matching, Level of Effort, Earmarking - Early Intervention Services. The Individuals with Disabilities Education Act (IDEA) provides funds for services to children with disabilities, including early intervention, special education, and related services. Title 34, Section 300.226, Code of Federal Regulations (CFR), limits the District's use of the amount received under part B of the Act, in combination with other amounts, to no more than 15 percent to develop and implement early intervention services for students who are not currently identified as needing special education or related services. The FDOE required the District to set aside 15 percent of its IDEA funds for coordinated early intervention services (CEIS). Expenditures for CEIS may include personnel costs, such as behavioral specialists, exceptional student education teachers, paraprofessionals, and other CEIS related staff.

The District identified students as eligible for Special Education program regular instruction, such as reading, speech, behavioral, and emotional, based on individual educational plans prepared yearly that include annual goals for the students. Students identified for CEIS receive remediation through the general education setting, typically by a general education teacher, under the guidance of a school based leadership team that may consist of a behavioral specialist, educational diagnostician, psychologist, social worker, or district resource teacher.

The FDOE awarded the District \$25,435,307 for the 2013-14 fiscal year Special Education programs and the District was required to set aside \$3,815,296, representing 15 percent of the total of these awards, for CEIS. Although District personnel maintained detailed tracking for the CEIS program, District records indicated that only \$3,525,984 was spent for the program, resulting in questioned costs of \$289,312 subject to disallowance by the grantor.

In addition, to document eligibility for CEIS, the District used a Progress Monitoring Plan and a Tier 3 Problem Solving form that identified CEIS eligible students and their learning deficiencies along with documented planned strategies to overcome the deficiencies. The District provided a list of 6,991 students served by CEIS; however, for 12 of 25 students tested, District records did not evidence the CEIS services provided or early intervention identification. Absent such records, the risk is increased that CEIS will be provided to students who are ineligible for

these services. Subsequent to our inquiry, District personnel determined that 5 of the 12 students had not been served by CEIS based on their test scores in the 2012-13 school year and should not have been on the list of students served by CEIS.

Recommendation: The District should strengthen procedures to ensure that coordinated early intervention services are only provided to eligible students and adequately documented for Special Education programs. Additionally, the District should document to the grantor (FDOE) the allowability of the \$289,312 of questioned costs or restore this amount to the program.

District Contact Person: Dr. Lisa Grant, Executive Director, Exceptional Student Education

Federal Awards Finding No. 2014-002:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Agriculture and Consumer Services

Nonmajor Federal Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget (OMB) Circular A-87 provides, for charges to Federal awards for salaries and wages, that for employees expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. In addition, OMB Circular A-87 provides that budget estimates or other distribution percentages determined before services are performed do not qualify as support for charges to Federal awards.

For the 2013-14 fiscal year, the District reported \$35,310,847 of expenditures for the Child Nutrition Cluster (CNC) programs. The District allocated costs to the CNC programs for custodial services to lunchrooms totaling \$1,015,923 based on estimates of average custodian salary and benefits for 3.5 hours a day for 116 school sites instead of basing costs on required PARs or equivalent documentation, contrary to OMB Circular A-87. We interviewed seven cafeteria managers and determined that the actual custodial services ranged from 3.5 to 6 hours a day and, therefore, determined that the District did not overcharge CNC programs for custodial services. However, absent the required PARs or equivalent documentation to demonstrate actual time devoted to CNC program activities, there is an increased risk that personnel costs may be inappropriately charged to a CNC program.

Recommendation: The District should enhance its procedures to ensure that required documentation is maintained to support salary and benefit charges to Federal programs.

District Contact Person: Jeanne Lamoureux, Manager – Food Service

Federal Awards Finding No. 2014-003:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Agriculture and Consumer Services

Nonmajor Federal Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)

Finding Type: Noncompliance

Questioned Costs: Unknown

Allowable Costs/Cost Principles – Transfer of Insurance Program Assets. OMB Circular A-87 establishes cost principles to be applied and guidance for determining allowable costs and applicable credits to Federal awards. Also, Section 22.d.5. of Attachment B provides that whenever funds are transferred from a self-insurance reserve to other

accounts (e.g., General Fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer. In addition, Section C of Attachment A specifies that, to be allowable costs under a grant program, the costs must be net of all applicable credits, and defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, including insurance refunds or rebates.

The District provides workers' compensation, general liability, and automobile liability insurance for its employees on a self-insured basis and accounts for the activities of this program within an internal service fund. The costs of workers compensation claims and other expenses incurred are allocated to the General Fund by premium charges based on payroll expenses and workers compensation rates determined by job classification and to the Special Revenue – Food Service Fund (non-Federal and Federal) by premiums charges based on actual claims incurred by the various cost centers (schools/departments). For Federal program workers compensation premiums, 1.5 percent of the premiums are for employees funded by the Child Nutrition Cluster nonmajor Federal program.

During the 2011-12, 2012-13, and 2013-14 fiscal years, the District transferred from the self-insurance program \$2.8, \$2.3, and \$2.2 million, respectively to the General Fund. However, District personnel did not make a determination of the portion attributable to Federal programs for premium costs previously charged to Federal Programs. Without such determination, District records did not evidence that applicable refunds were made to the Federal government for its share of the funds transferred, contrary to OMB Circular A-87.

Recommendation: The District should make a determination as to what portion of the transferred funds should be credited to Federal programs and consult with the Florida Department of Agriculture and Consumer Services for resolution of this matter.

District Contact Person: Kevin Smith, Associate Superintendent Finance and Business Services

Federal Awards Finding No. 2014-004:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: \$169,910

Period of Availability. Title 34, Section 80.23, CFR, provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period unless carryover of unobligated funds is permitted. The District received Title I program funds totaling \$37,181,941 with a grant period from July 2013 to June 2014. Expenditures were to be incurred and purchase orders issued no later than June 30, 2014, and accrued expenditures were to be liquidated by August 20, 2014.

Our review of program expenditures disclosed costs for instructional materials totaling \$169,910, including \$6,504 of related indirect costs, that were incurred in July 2014, which was after the period of availability. District personnel indicated this was due to an oversight. As the District incurred the expenditures after June 30, 2014, these expenditures totaling \$169,910 represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the \$169,910 of questioned costs or restore this amount to the Title I program.

District Contact Person: Mary Conage, Title I Director

Federal Awards Finding No. 2014-005:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)****Finding Type: Noncompliance****Questioned Costs: \$11,290**

Allowable Cost/Cost Principles – Documentation of Time and Effort. OMB Circular A-87, Attachment B, Section 8.h., provides, for charges to Federal awards for salaries and wages, that for employees expected to work on multiple cost activities or objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, the total activity for which each employee is compensated, and must be signed by the employee.

For the 2013-14 fiscal year, the District reported Title I program expenditures of \$31,312,569, of which salaries and benefits totaled \$22,350,093. To determine the propriety of these expenditures, we tested salary and benefits totaling \$1,161,299 for 19 employees who were paid in part, or fully, by the program. Although PARs or equivalent documentation were generally maintained to support program salary and benefit expenditures, the District inadvertently used Title I program funds totaling \$11,290 to pay 25 percent of a teacher's salaries and benefits. District personnel indicated that since the teacher's salary was funded by unrestricted resources during the 2012-13 fiscal year, the District intended that the teacher's salary be funded by those resources for the 2013-14 fiscal year. As a result, the District initially incurred \$11,290 of questioned costs, including \$432 of related indirect costs. Subsequent to our inquiry, the District reimbursed the Title I program for the questioned costs.

Recommendation: The District should enhance its procedures to ensure that only allowable salary and benefits are charged to the Title I program.

District Contact Person: Mary Conage, Title I Director

PRIOR AUDIT FOLLOW-UP

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

Current Fiscal Year Finding Numbers	Financial and Federal Single Audit		Operational	
	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2007-08 Fiscal Year Audit Report and Finding Numbers
1	CPA Firm, Finding No. 2013-001	CPA Firm, Summary Schedule of Prior Audit Findings	NA	NA
2	NA	NA	Audit Report No. 2012-150, Finding No. 13	Audit Report No. 2009-186, Finding No. 4
3	NA	NA	Audit Report No. 2012-150, Finding No. 9	Audit Report No. 2009-186, Finding No. 9
10	NA	NA	Audit Report No. 2012-150, Finding No. 16	NA
17	CPA Firm, Finding No. 2013-004	NA	Audit Report No. 2012-150, Finding No. 19	NA
18	CPA Firm, Finding No. 2013-004	NA	NA	NA
19	NA	NA	Audit Report No. 2012-150, Finding No. 20	Audit Report No. 2009-186, Finding No. 19

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal <u>Awards Finding No.</u>	Program/Area	Brief Description	Status	Comments
Carr, Riggs, & Ingram, LLC 2013-003	Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Career and Technical Education – Basic Grants to States (CFDA No. 84.048); Education for Homeless Children and Youth (CFDA No. 84.196); Fund for the Improvement of Education (CFDA No. 84.215); Charter Schools (CFDA No. 84.282); Improving Teacher Quality State Grants (CFDA No. 84.367); Refugee and Entrant Assistance - State Administered Programs (CFDA No. 93.566); Centers for Disease Control and Prevention - Affordable Care Act (ACA) - Communities Putting Prevention to Work (CFDA No. 93.520) - Allowable Costs/Cost Principles	The District overcharged indirect cost to various Federal programs, resulting in questioned costs of \$739,286.	Corrected.	The District has restored the questioned costs to the programs.
Carr, Riggs, & Ingram, LLC 2012-003	Federal Pell Grant Program (CFDA No. 84.063) - Special Tests and Provisions	District procedures regarding Pell overpayments and return of Title IV funds needed enhancement.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



Vision
100% Student Success

Mission
"Educate and prepare each student for college, career and life"

February 27, 2015

David W. Martin, CPA
Auditor General
State of Florida
111 West Madison Street
Tallahassee, FL 32399

Dear Mr. Martin,

Attached are Pinellas County District School Board's written statements of explanation concerning all of the audit findings, including the District's actual and proposed corrective actions.

If you have any further questions, please contact Cathy Davidson, CPA, Director of Accounting, at 727-588-6178 or email her at davidsonc@pcsb.org.

Sincerely,

Michael A. Grego, Ed. D.
Superintendent

Attachment

cc: Kevin W. Smith, CPA, Associate Superintendent, Finance & Business Services
Cathy Davidson, CPA, Director of Accounting

ADMINISTRATION BUILDING
301 Fourth St. SW
PO Box 2942
Largo, FL 33779-2942
Ph (727) 588 6000

**SCHOOL BOARD OF
PINELLAS COUNTY, FLORIDA**
Chairperson
Linda S. Lerner

Vice Chairperson
Peggy L. O'Shea

Janet R. Clark
Carol J. Cook
Rene Flowers
Terry Krassner
Dr. Ken Peluso

Superintendent
Michael A. Grego, Ed D.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS

Finding No. 1: Controls over investment purchases could be enhanced.

PCSB RESPONSE:

The District will enhance its procedures to ensure timely review of investment transactions.

Finding No. 2: Improvements were needed in controls over maintenance, warehouse, and transportation inventories.

PCSB RESPONSE:

Although some employees have unrestricted access to their respective inventories due to limited personnel resources as well as the physical layout of the inventories, all inventory adjustments are reviewed independently of the various inventory personnel.

As discussed and implemented last fiscal year, we are currently providing independent reviews of all inventory adjustments. The Financial Reporting Analyst, who is independent of all inventory processes, reviews and documents all cycle count adjustments generated in both the Maintenance and Warehouse Departments. In the Vehicle Maintenance Department, it was agreed that their management was independent of the inventory function and they are currently reviewing all Vehicle Maintenance inventory adjustments.

The procurement process is reviewed by management in all three departments.

Finding No. 3: District records did not evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in \$1,164,325 of questioned costs.

PCSB RESPONSE:

The District will continue to review and enhance its controls over ad valorem tax levy proceeds. The District has contacted the Florida Department of Education and requested guidance regarding the allowability of the transfer of the costs in question.

Finding No. 4: The food service program financial condition could be improved.

PCSB RESPONSE:

The Food Service Department, under new directorship, will continue its efforts to improve the program's financial condition.

Finding No. 5: Controls over monitoring bus drivers could be improved.

PCSB RESPONSE:

The District does follow SBE Rule 6A-3.0141(6), FAC in that a full report on all active drivers is generated from the FL Northwest Regional Data Center immediately prior to each new school year. This report is also run on a weekly basis throughout the calendar year. Appropriate actions are taken by the district when a negative entry is received against all drivers' DMV records. In order to insure the data base is accurate, going forth, a full report of all active drivers will be run quarterly and at the beginning of each new school year. This report will be reconciled against the District's employee database to insure all drivers employed are in the state database. Weekly reports will continue to be run. Also, a report will be generated prior to the extended school year starting for any driver working during this time period.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS (continued)

Finding No. 6: Certain employment agreements included severance pay provisions that did not appear to be consistent with Section 215.425(4) (a), Florida Statutes.

PCSB RESPONSE:

The language on the administrators and supervisor and noninstructional managerial and confidential employee's contracts has been changed and will be used on all contracts in the future.

Finding No. 7: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

PCSB RESPONSE:

The Secretary to the Assistant Superintendent of Human Resources will annually send a list of individuals required to file the Statement of Financial Interest (Form 1) to the Commission on Ethics. The Commission in turn will contact those individuals to inform them of the filing requirement. Completed forms are sent to the Supervisor of Elections in the county those individual reside in. The Secretary to Assistant Superintendent will monitor the filings and request copies from the Supervisor of Elections to be sent to the Director of Purchasing for review for potential conflicts of interest. The Associate Superintendent Finance and Business Services will review the Purchasing Director's Form 1.

Finding No. 8: Controls over contractual services and related payments could be improved.

PCSB RESPONSE:

A process has been put in place in that prior to submitting any invoice for approval, the clerk responsible for accounts payable within the department will verify the invoice, purchase order and contract are consistent and will initial off on the invoice. The packet will then be submitted to the Executive Manager, Transportation Services or the Director for final approval. The Executive Manager or Director will also verify the invoice, purchase order and contract are consistent for the amount(s) being approved.

Additionally, more controls are being put in place for the payment of contract service employees within the transportation call center. The supervisor over the call center will be responsible for verifying all daily time sheets for the contract employees and will submit them to the transportation department secretary. The secretary will be responsible for submitting the time sheets to the vendor after verifying the times are correct.

Once an invoice for these services is received, the clerk responsible for account payables will follow the process as outlined previously. There will be one additional step added to process in that the secretary will also verify the invoice received is consistent with the time sheets previously submitted. The Executive Manager or Director will also verify all charges are consistent with the terms of the contract and time sheets submitted prior to approval.

On February 3, 2015, transportation staff met with a representative from the vendor who received the overpayments for the purpose of seeking recovery. The District has been notified by the vendor that a check for the 2013-2014 overpayments is being processed. The District will continue in its efforts to seek recovery of the remaining balance.

Finding No. 9: Procedural enhancements could be made to ensure compliance with workforce development programs fund restrictions.

PCSB RESPONSE:

The positions and funding sources for all career, technical and adult education staff – including the instructional specialist and family and community liaison – have been evaluated and corrected to accurately reflect the distribution of job responsibilities to K-12 and workforce development efforts.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS (continued)

Finding No. 10: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

PCSB RESPONSE:

A review of the student records and processes found a process error in the way student scheduling and attendance reporting has been conducted at the adult and community school sites. Subsequent to this discovery the following modifications have been implemented;

- a. The over-reported student records have been corrected to accurately reflect actual student attendance. A corrected data file has been sent to FLDOE (Feb. 13, 2015).*
- b. Training provided to Adult Ed Program Coordinators and Managing Officer through the FLDOE Adult General Education Data Reporting Workshop (Jan. 13, 2015).*
- c. Training provided for all Post-Secondary Data Management Technicians, District Operations Specialist, and Adult Education Managing Officer through Accurate Data Reporting training (Jan. 23, 2015).*
- d. Staff training has taken place for all adult education administrators and data entry technicians as to the correct data elements and procedures for reporting each (Jan. 19-23, 2015 and Feb. 16, 2015).*
- e. Teacher training in the use of the new attendance feature of the Focus SIS (Feb. 17 and 18, 2015).*

Finding No. 11: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written procedures.

PCSB RESPONSE:

Pinellas Virtual School staff has written a policies and procedural manual. This manual will be updated on an annual basis and will be used as the foundation of a comprehensive standard operation procedural guide.

Finding No. 12: VIP provider contracts did not include certain necessary provisions.

PCSB RESPONSE:

Pinellas Virtual School will be working with all FDOE-approved VIP providers to ensure their contracts include all necessary provisions. The District currently does not have an FDOE-approved VIP provider for the 2014-15 school year.

Finding No. 13: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

PCSB RESPONSE:

Pinellas Virtual School has worked to ensure that the District has at least the minimum number of VIP options as required by law. The District currently offers the minimum number of options (3): Pinellas Virtual School, a virtual charter school, and an inter-district agreement (Pasco e-School).

Finding No. 14: The District could enhance its procedures to ensure that timely, written notifications are provided to parents about all VIP options offered.

PCSB RESPONSE:

Pinellas Virtual School is developing a letter to be distributed to all students attending Pinellas County Public Schools. This written letter will be distributed during the 3rd Quarter report card distribution time period.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

ADDITIONAL MATTERS (continued)

Finding No. 15: The District's procedures did not always require documented verification that VIP students complied with compulsory attendance requirements.

PCSB RESPONSE:

Pinellas Virtual School will work with all VIP providers to ensure they adhere to the 180 day compulsory attendance laws. For the 2014-15 school year, the District does not currently have an FDOE-approved VIP provider.

Finding No. 16: VIP students and their parents were not notified of the availability of Internet access or that Internet access would be provided to qualified VIP students.

PCSB RESPONSE:

Pinellas Virtual School will be corresponding with other districts' virtual schools to determine how this process is handled. We will need to determine a process for a set amount of money to reimburse parents for their Internet cost through the District.

Finding No. 17: Some inappropriate and unnecessary information technology (IT) access privileges existed.

PCSB RESPONSE:

Technology and Information Services (TIS) will review the access privileges and ensure that assigned access privileges restrict employees to only the functions necessary for their assigned job responsibilities on an annual basis.

Finding No. 18: The District's IT security program needed improvement.

PCSB RESPONSE:

The TIS Security Council was formed in the fall of 2014. The council has developed the Security Risk Management Framework consisting of three tiers. The council meets twice a month and is developing TIS procedures. The council is also creating a written systems development life cycle for developing an application and managing changes.

Finding No. 19: District IT security controls related to user authentication needed improvement.

PCSB RESPONSE:

In January 2015, TIS finalized two procedures to improve the cited security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FEDERAL AWARDS Findings

Federal Awards Finding No. 2014-001: The District did not adequately document charges to the Special Education program for coordinated early intervention services, resulting in \$289,312 of questioned costs.

PCSB RESPONSE:

The District has developed and implemented a process to ensure coordinated early intervention services (CEIS) are provided to eligible students. The Exceptional Student Education Department monitors CEIS eligible students regularly and follows up with schools to correct any identified errors. In addition, the purpose and information about the CEIS program and requirements are shared with schools repeatedly to improve understanding and compliance. The new procedures are listed below:

- *Universal spreadsheet created for school based leadership team to track the students coded CEIS*
- *Training on CEIS to various groups in the District*
- *Question/answer sessions through surveys to CEIS staff*
- *Implemented two additional CEIS code checks throughout the year to update Focus*
- *Random CEIS checks in the schools*
- *Ongoing professional development to train on the purpose and process of CEIS*

The remaining \$289,312 set aside for CEIS was due to uncontrollable variables, such as, vacancies and leaves of absences in the personnel portion of the CEIS funds. In order to ensure 100% of CEIS funds are spent, the District has implemented a monthly monitoring process. Expenditures and balances are reviewed monthly. The process also includes the review and reallocation of balances to support achievement of our District strategic plan and CEIS goals. The \$289,312 has been allocated to professional development to improve student achievement.

Federal Awards Finding No. 2014-002: The District should enhance its procedures to ensure that required documentation is maintained to support personnel charges to the Child Nutrition Cluster programs.

PCSB RESPONSE:

The Food Service Department will adopt the "Personnel Activity Report" and approved procedures by May 31, 2015 to document actual hours worked to support salaries and benefits charged to the Child Nutrition Program.

Federal Awards Finding No. 2014-003: The District transferred funds totaling \$7.3 million during the 2011-2012 through 2013-2014 fiscal years from its self-insurance program internal service fund to the General Fund, and no determination was made of the portion that should be credited to Federal programs.

PCSB RESPONSE:

The District will conduct an analysis by May 31, 2015 to determine if any portion should be credited to Federal Programs, specifically Food Service. And based upon that calculation the District will credit funds accordingly.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FEDERAL AWARDS Findings (continued)

Federal Awards Finding No. 2014-004: The District used Title I program funds for expenditures incurred outside the period of availability, resulting in \$169,910 of questioned costs.

PCSB RESPONSE:

The Title I deadline for purchases has been moved up considerably to February 27th. This will allow ample time for approval and processing of purchase requisitions prior to the end of the project funding period.

The allowance of the cost (materials and supplies for the Summer Bridge program) was included in the FDOE approved Title I Part A budget for year 2013-2014. The purchase order, however, was not issued until after the deadline of the 2013-14 project. The \$169,910.00 expenditure will be reclassified to the 2014-2015 Title I Part A project, along with associated adjustments to indirect costs for both project years. This reclassification will be completed no later than April 30, 2015.

Federal Awards Finding No. 2014-005: District procedures did not ensure that all Title I program salary and benefit expenditures were allowable, resulting in \$11,290 of questioned costs.

PCSB RESPONSE:

The following procedure will be implemented when creating new/supplemental positions using Title I funds: Whenever possible, fill the position with a brand new employee or an employee who is new to the District, basically with someone who was not paid with District funds the prior fiscal year.

*If it is necessary or preferable to fill a Title I-funded position with an employee who was paid with District funds the prior fiscal year, the school or department should ensure that either:
The employee is moving into a completely different position with a different function code (e.g., from a District-funded teacher to a Title I-funded math coach); OR*

a. The District-funded position the employee held is still supported with District funds, but has been filled by someone else; OR

b. The District-funded position the employee previously held was eliminated, without consideration of Federal funds. Budget documents showing a reduction in District funding/Board-approved budget cuts would be needed for documentation.

c. As to the \$11,290 of questioned costs - \$10,857.80 of salary and fringe expenditures were reclassified from Title I to the District's General Fund on 1/26/15.

d. A \$432.14 credit to indirect costs associated with the \$10,857.80 reduction in salary and benefit expenditures will be recorded the week of February 20th when January indirect costs are claimed for Federal projects with allowable indirect costs.