

FRANKLIN 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>
George Thompson, Vice Chair to 11-18-13	1
David C. Hinton	2
Teresa Ann Martin, Vice Chair from 11-19-13	3
Jimmy Gander, Chair	4
Pam Shiver	5
Nina M. Marks, 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 Nicole W. Ostrowski, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us 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.

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

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	21
Notes to Financial Statements	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	42
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	44
Notes to Required Supplementary Information.....	45
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	47
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	48
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	50
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	53
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	61
EXHIBIT A MANAGEMENT'S RESPONSE	62

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

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

Finding No. 2: The District did not always timely perform required background screenings.

Finding No. 3: Procedures for hiring new personnel could be strengthened.

Finding No. 4: The District needed to enhance controls over its health insurance plan.

Finding No. 5: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 6: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 7: The District did not timely deactivate information technology access privileges for certain employees.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2014-001: Controls over subrecipient monitoring could be enhanced to ensure that required documentation is maintained to support salary and benefits charges to Federal programs.

Federal Awards Finding No. 2014-002: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

Audit Objectives and Scope

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

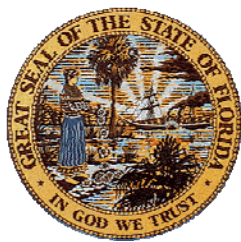
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a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

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2014-142.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 17 percent of the assets and 46 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are 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 discretely presented component unit, each major fund, and the aggregate remaining fund information for the Franklin County District School Board as of June 30, 2014, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE 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 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Franklin 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:

- Net position at June 30, 2014, totals \$49,716,072.69, which represents an increase of \$548,549.98 (1.12 percent) from the previous fiscal year.
- During the current fiscal year, General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$761,160.52. This may be compared to last fiscal year's results, when expenditures and other financing uses exceeded revenues and other financing sources by \$482,670.50. The increase in the current fiscal year fund balance is primarily due to increased property values and related property tax collections.
- The District uses Federal funding to supplement State and local funding provided by the Florida Education Finance Program (FEFP). The Florida Department of Education (FDOE) calculates FEFP funding, in part, based on student enrollment.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The government-wide statements present the District's activities in two 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 Apalachicola Bay Charter School, Inc., the District's charter school, meets the criteria for inclusion in the reporting entity as provided by generally accepted accounting principles. The charter school is reported separately from the financial information for the primary government as a discretely presented component unit.

The Franklin School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the District's financial statements as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

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

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

Notes to Financial Statements

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

Other Information

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

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	\$ 4,853,446.20	\$ 5,006,609.37
Capital Assets	56,857,856.40	57,971,238.57
Total Assets	61,711,302.60	62,977,847.94
Long-Term Liabilities	11,767,223.51	12,873,391.92
Other Liabilities	228,006.40	677,624.95
Total Liabilities	11,995,229.91	13,551,016.87
Net Position:		
Net Investment in Capital Assets	45,754,010.95	45,890,627.70
Restricted	4,079,955.03	4,540,209.52
Unrestricted Deficit	(117,893.29)	(1,004,006.15)
Total Net Position	\$ 49,716,072.69	\$ 49,426,831.07

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

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$338,453.06, in compensated absences payable and \$324,925, in other postemployment benefit obligations.

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	\$ 123,743.27	\$ 155,261.55
Operating Grants and Contributions	888,944.21	849,510.79
Capital Grants and Contributions	263,134.56	143,363.43
General Revenues:		
Property Taxes, Levied for Operational Purposes	7,791,798.73	7,270,301.67
Property Taxes, Levied for Capital Projects	1,665,848.03	1,656,105.25
Grants and Contributions Not Restricted to Specific Programs	4,789,008.34	3,726,568.71
Unrestricted Investment Earnings	23,607.39	90,651.98
Miscellaneous	235,059.56	194,776.77
Total Revenues	15,781,144.09	14,086,540.15
Functions/Program Expenses:		
Instruction	7,700,489.31	7,772,403.97
Student Personnel Services	313,690.34	286,842.02
Instructional Media Services	52,604.78	133,181.02
Instruction and Curriculum Development Services	85,061.25	96,541.07
Instructional Staff Training Services	61,646.73	50,126.95
Instruction Related Technology	141,651.56	46,994.44
School Board	380,628.98	355,407.31
General Administration	251,269.63	217,732.57
School Administration	402,279.18	316,388.43
Facilities Acquisition and Construction	167,784.87	326,815.75
Fiscal Services	302,007.48	286,196.88
Food Services	1,014,362.03	947,218.23
Central Services	417,533.94	422,911.86
Student Transportation Services	871,953.76	867,761.51
Operation of Plant	965,750.22	910,805.93
Maintenance of Plant	130,618.95	206,677.05
Administrative Technology Services	31,045.97	43,458.56
Unallocated Interest on Long-Term Debt	561,000.06	604,319.07
Unallocated Depreciation Expense	1,377,859.55	1,381,911.30
Loss on Disposal of Capital Assets	3,355.52	18,011.53
Total Functions/Program Expenses	15,232,594.11	15,291,705.45
Change in Net Position	548,549.98	(1,205,165.30)
Net Position - Beginning	49,426,831.07	50,790,140.37
Adjustment to Beginning Net Position	(259,308.36)	(158,144.00)
Net Position - Beginning, as Restated	49,167,522.71	50,631,996.37
Net Position - Ending	\$ 49,716,072.69	\$ 49,426,831.07

Governmental activities increased the District's net position by \$548,549.98, or 1.12 percent. The largest revenue source is the local property taxes (59.93 percent). Property taxes levied for operational purposes increased by \$521,497.06, primarily due to the increase in local property values experienced in Franklin County. Grants and

contributions not restricted to specific programs increased by \$1,062,439.63 primarily due to an increase in Race-to-the-Top grant funding and an increase in FEFP funding. Total expenses remained fairly consistent when compared to the prior fiscal year.

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 increased by \$555,763.74 during the fiscal year to \$4,625,439.80 at June 30, 2014. The unassigned fund balance totals \$542,876.76. The remainder of the fund balance is nonspendable, restricted, and assigned to indicate that it is 1) not in spendable form (\$176,156.59), 2) restricted for particular purposes (\$3,905,523.03), or 3) assigned for particular purposes (\$883.42).

Major Governmental Funds

General Fund. The General Fund is the primary operating fund. At June 30, 2014, the General Fund's unassigned fund balance is \$542,876.76, while the total fund balance is \$759,439.27. From the prior fiscal year, the total fund balance increased by \$761,160.52, and the total unassigned fund balance increased by \$772,930, from a deficit of \$230,053.24. The increases are primarily due to an increase of \$521,497.06 in property tax revenue.

Special Revenue – Federal Economic Stimulus Fund. The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$255,685.18 each. The District uses these funds to account for Race-to-the-Top grant funding and the activity significantly increased from the \$42,604.82 of revenues and expenditures each reported in the prior fiscal year. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred this fund generally does not accumulate a fund balance.

Debt Service – Other Fund. The Debt Service – Other Fund has a total fund balance of \$864.21, which is available to fund the loan repayment related to a lease-purchase agreement.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,244,072.36 generated by the local capital improvement tax levy for educational capital outlay needs, including new Board-advertised construction and renovation and remodeling projects. The fund balance decreased \$253,485.22, or 7.25 percent which was fairly consistent with the prior fiscal year decrease of \$235,518.71, or 6.31 percent.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2013-14 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$698,728.91, or 6.73 percent. At the same time, final appropriations are more than the original budgeted amounts by \$424,501.64. Budget revisions occurred primarily from changes in estimated State funding levels and local revenues.

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 \$56,857,856.40 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software.

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

Long-Term Debt

Long-term debt consists of two promissory notes from the Bank of America for a lease-purchase agreement with the Leasing Corporation, whereby the District secured financing of \$16,350,000 at an interest rate of 4.58 percent for educational facilities. The purpose of this debt was for partial funding of construction of the District's new K-12 Franklin County School. Interest and principal totaling \$1,537,740.06 will be paid every June 30 until paid in full on June 30, 2023.

Additional information on the District's long-term debt can be found in note III.G to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. General Fund revenues from State sources comprised 25.75 percent of revenue for current operations of the District. This is an increase from 19.04 percent in the previous fiscal year. Revenues from State sources for current operations are primarily from FEEP administered by the FDOE 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 FDOE. The District experienced an increase in FTE used for funding purposes during the 2013-14 fiscal year after a decrease in FTE over the past several years. An increase in FTE is anticipated for the 2014-15 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Franklin County District School Board's finances. Questions concerning information provided in this report or requests for additional financial information should be addressed to the Director of Financial Services and Human Resources, Franklin County District School Board, 85 School Road, Suite 1, Eastpoint, FL 32328.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 4,467,657.49	\$ 516,859.00
Accounts Receivable	11,727.12	
Due from Other Agencies	197,905.00	22,705.00
Investments	72,374.85	1,174,745.00
Inventories	103,781.74	
Capital Assets:		
Nondepreciable Capital Assets	14,736,955.66	360,944.00
Depreciable Capital Assets, Net	42,120,900.74	780,783.00
TOTAL ASSETS	61,711,302.60	2,856,036.00
LIABILITIES		
Salaries and Benefits Payable	31,103.01	94,425.00
Payroll Deductions and Withholdings	2,745.68	
Accounts Payable	41,932.42	20,844.00
Deposits Payable	83,736.11	
Advanced Revenue	68,489.18	
Long-Term Liabilities:		
Portion Due Within One Year	1,112,120.47	142,901.00
Portion Due After One Year	10,655,103.04	26,552.00
TOTAL LIABILITIES	11,995,229.91	284,722.00
NET POSITION		
Net Investment in Capital Assets	45,754,010.95	1,025,377.00
Restricted for:		
Capital Projects	3,549,478.44	66,387.00
Food Service	315,634.06	
Workforce Development	214,842.53	
Unrestricted	(117,893.29)	1,479,550.00
TOTAL NET POSITION	\$ 49,716,072.69	\$ 2,571,314.00

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

THIS PAGE INTENTIONALLY LEFT BLANK.

**FRANKLIN 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	\$ 7,700,489.31	\$ 4,287.90	\$	\$
Student Personnel Services	313,690.34			
Instructional Media Services	52,604.78			
Instruction and Curriculum Development Services	85,061.25			
Instructional Staff Training Services	61,646.73			
Instruction Related Technology	141,651.56			
School Board	380,628.98			
General Administration	251,269.63			
School Administration	402,279.18			
Facilities Acquisition and Construction	167,784.87			263,134.56
Fiscal Services	302,007.48			
Food Services	1,014,362.03	107,160.60	888,944.21	
Central Services	417,533.94			
Student Transportation Services	871,953.76	12,294.77		
Operation of Plant	965,750.22			
Maintenance of Plant	130,618.95			
Administrative Technology Services	31,045.97			
Unallocated Interest on Long-Term Debt	561,000.06			
Unallocated Depreciation Expense*	1,377,859.55			
Loss on Disposal of Capital Assets	3,355.52			
Total Governmental Activities	\$ 15,232,594.11	\$ 123,743.27	\$ 888,944.21	\$ 263,134.56
Component Unit				
The Apalachicola Bay Charter School, Inc.	\$ 2,661,054.00	\$ 0.00	\$ 213,505.00	\$ 223,016.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Special Items				
Total General Revenues and Special Items				
Change in Net Position				
Net Position - Beginning				
Adjustment to Beginning Net Position				
Net Position - Beginning, as Restated				
Net Position - Ending				

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

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component
Governmental	Unit
Activities	
\$	\$
(7,696,201.41)	
(313,690.34)	
(52,604.78)	
(85,061.25)	
(61,646.73)	
(141,651.56)	
(380,628.98)	
(251,269.63)	
(402,279.18)	
95,349.69	
(302,007.48)	
(18,257.22)	
(417,533.94)	
(859,658.99)	
(965,750.22)	
(130,618.95)	
(31,045.97)	
(561,000.06)	
(1,377,859.55)	
(3,355.52)	
(13,956,772.07)	
	(2,224,533.00)
7,791,798.73	
1,665,848.03	
4,789,008.34	2,278,003.00
23,607.39	5,111.00
235,059.56	8,439.00
14,505,322.05	2,291,553.00
548,549.98	67,020.00
49,426,831.07	2,504,294.00
(259,308.36)	
49,167,522.71	2,504,294.00
\$ 49,716,072.69	\$ 2,571,314.00

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 2,233,643.01	\$	\$ 864.21
Accounts Receivable	11,727.12		
Due from Other Funds	90,351.21		
Due from Other Agencies			
Investments	1,719.98		
Inventories			
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 2,337,441.32</u>	<u>\$ 0.00</u>	<u>\$ 864.21</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 8,293.65	\$	\$
Payroll Deductions and Withholdings	869.11		
Accounts Payable	32,847.08		
Due to Other Funds	1,452,256.10		
Deposits Payable	83,736.11		
Advanced Revenue			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,578,002.05</u>	<u> </u>	<u> </u>
Fund Balances:			
Nonspendable:			
Inventories			
Fund B Investments	1,719.98		
Total Nonspendable Fund Balance	<u>1,719.98</u>	<u> </u>	<u> </u>
Restricted for:			
Capital Projects			
Food Service			
Workforce Development	214,842.53		
Total Restricted Fund Balance	<u>214,842.53</u>	<u> </u>	<u> </u>
Assigned for Debt Service			864.21
Unassigned Fund Balance	<u>542,876.76</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>759,439.27</u>	<u> </u>	<u>864.21</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,337,441.32</u>	<u>\$ 0.00</u>	<u>\$ 864.21</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,767,661.98	\$ 465,488.29	\$ 4,467,657.49
		11,727.12
1,407,307.36	44,948.74	1,542,607.31
	197,905.00	197,905.00
69,103.02	1,551.85	72,374.85
	103,781.74	103,781.74
<u>\$ 3,244,072.36</u>	<u>\$ 813,675.62</u>	<u>\$ 6,396,053.51</u>
\$	\$ 22,809.36	\$ 31,103.01
	1,876.57	2,745.68
	9,085.34	41,932.42
	90,351.21	1,542,607.31
		83,736.11
	68,489.18	68,489.18
	<u>192,611.66</u>	<u>1,770,613.71</u>
	103,781.74	103,781.74
69,103.02	1,551.85	72,374.85
<u>69,103.02</u>	<u>105,333.59</u>	<u>176,156.59</u>
3,174,969.34	303,858.84	3,478,828.18
	211,852.32	211,852.32
		214,842.53
<u>3,174,969.34</u>	<u>515,711.16</u>	<u>3,905,523.03</u>
	19.21	883.42
		<u>542,876.76</u>
<u>3,244,072.36</u>	<u>621,063.96</u>	<u>4,625,439.80</u>
<u>\$ 3,244,072.36</u>	<u>\$ 813,675.62</u>	<u>\$ 6,396,053.51</u>

**FRANKLIN 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	\$	4,625,439.80
---	-----------	---------------------

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.		56,857,856.40
--	--	---------------

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:

Notes Payable	\$ 11,103,845.45	
Compensated Absences Payable	338,453.06	
Other Postemployment Benefits Payable	324,925.00	(11,767,223.51)

Net Position - Governmental Activities	\$	49,716,072.69
---	-----------	----------------------

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

THIS PAGE INTENTIONALLY LEFT BLANK.

**FRANKLIN 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	Debt Service - Other Fund
Revenues			
Intergovernmental:			
Federal Through State and Local	\$ 171,271.70	\$ 255,685.18	\$
State	2,851,519.77		
Local:			
Property Taxes	7,791,798.73		
Charges for Services - Food Service			
Miscellaneous	259,564.22		37.24
Total Local Revenues	8,051,362.95		37.24
Total Revenues	11,074,154.42	255,685.18	37.24
Expenditures			
Current - Education:			
Instruction	6,952,098.27	27,431.05	
Student Personnel Services	222,429.87		
Instructional Media Services	52,604.78		
Instruction and Curriculum Development Services		26,620.38	
Instructional Staff Training Services	7,688.52	822.64	
Instruction Related Technology	65,827.35	72,854.21	
School Board	380,628.98		
General Administration	189,188.23		
School Administration	364,161.28	37,748.34	
Facilities Acquisition and Construction	548.00		
Fiscal Services	302,007.48		
Food Services			
Central Services	371,870.10		
Student Transportation Services	712,349.08		
Operation of Plant	955,438.26		
Maintenance of Plant	130,618.95		
Administrative Technology Services	31,045.97		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	15,249.00	90,208.56	
Debt Service:			
Principal			976,765.42
Interest and Fiscal Charges			560,974.63
Total Expenditures	10,753,754.12	255,685.18	1,537,740.05
Excess (Deficiency) of Revenues Over Expenditures	320,400.30		(1,537,702.81)
Other Financing Sources (Uses)			
Transfers In	571,098.34		1,537,740.05
Transfers Out	(130,338.12)		(12,420.00)
Total Other Financing Sources (Uses)	440,760.22		1,525,320.05
Net Change in Fund Balances	761,160.52		(12,382.76)
Fund Balances, Beginning	(1,721.25)		13,246.97
Adjustment to Beginning Fund Balances			
Fund Balances, Beginning as Restated	(1,721.25)		13,246.97
Fund Balances, Ending	\$ 759,439.27	\$ 0.00	\$ 864.21

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$ 2,077,070.47	\$ 2,504,027.35
	585,539.99	3,437,059.76
1,665,848.03		9,457,646.76
	107,160.60	107,160.60
3,799.60	11,848.56	275,249.62
<u>1,669,647.63</u>	<u>119,009.16</u>	<u>9,840,056.98</u>
1,669,647.63	2,781,619.62	15,781,144.09
	850,362.98	7,829,892.30
	91,260.47	313,690.34
		52,604.78
	58,440.87	85,061.25
	53,135.57	61,646.73
	2,970.00	141,651.56
		380,628.98
	62,081.40	251,269.63
	369.56	402,279.18
158,259.24	140,890.00	299,697.24
		302,007.48
	1,014,362.03	1,014,362.03
	45,663.84	417,533.94
	30,616.61	742,965.69
	10,311.96	965,750.22
		130,618.95
		31,045.97
3,245.22	149,127.82	152,373.04
	7,078.00	112,535.56
		976,765.42
	25.43	561,000.06
<u>161,504.46</u>	<u>2,516,696.54</u>	<u>15,225,380.35</u>
1,508,143.17	264,923.08	555,763.74
27,710.00	102,628.12	2,239,176.51
(1,789,338.39)	(307,080.00)	(2,239,176.51)
(1,761,628.39)	(204,451.88)	
(253,485.22)	60,471.20	555,763.74
3,497,557.58	819,901.12	4,328,984.42
	(259,308.36)	(259,308.36)
3,497,557.58	560,592.76	4,069,676.06
<u>\$ 3,244,072.36</u>	<u>\$ 621,063.96</u>	<u>\$ 4,625,439.80</u>

**FRANKLIN 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 **\$ 555,763.74**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (1,110,026.65)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (3,355.52)

Repayment of long-term debt is an expenditures 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. 976,765.42

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 172,520.99

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. (43,118.00)

Change in Net Position - Governmental Activities **\$ 548,549.98**

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 127,155.00
Inventories	<u>33,747.00</u>
TOTAL ASSETS	<u><u>\$ 160,902.00</u></u>
LIABILITIES	
Accounts Payable	\$ 1,497.00
Internal Accounts Payable	<u>159,405.00</u>
TOTAL LIABILITIES	<u><u>\$ 160,902.00</u></u>

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

**FRANKLIN 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 the legally separated component unit 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 Franklin 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 associated with the District's transportation department is allocated to the student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Franklin County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Franklin 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:

Blended Component Unit. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as part of the District. The Franklin School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note III.G.1. Due to the substantive economic relationship between the District and the Leasing Corporation,

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

the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

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

The Apalachicola Bay Charter School, Inc. (Charter School), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School operates under a charter approved by its sponsor, the Board. The Charter School is considered to be a component unit of the District because the District is financially accountable for the Charter School as the District established the Charter School by approval of the charter, which is tantamount to the initial appointment of the Charter School, and there is the potential for the Charter School to provide specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the Charter School is a public school and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the Charter School's audited financial statements for the fiscal year ended June 30, 2014. The audit report is filed in the District's administrative office.

C. Basis of Presentation: Government-wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and other costs related to the notes payable for the construction of a K-12 school.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on notes payable.

Additionally, the District reports the following fiduciary fund type:

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

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

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures,

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

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. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Charter School is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

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

1. Cash and Cash Equivalents

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

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

2. Investments

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.84438408 at June 30, 2014. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as

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

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 and adjusted at fiscal year-end to reflect year-end physical inventories. Agency fund inventories are reported at cost under the first-in, first-out method.

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	15 - 30 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

5. Long-Term Liabilities

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

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

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish 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 reported no committed fund balance 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. The Board has, by approval of the annual financial report, authorized the assignment of fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

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

The District received an allocation under the Classrooms First Program and is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes an allocation of Classrooms First Program funds as advanced revenue until such time as an encumbrance authorization is received.

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

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

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

The Board adopted the 2013 tax levy on September 3, 2013. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

II. PRIOR PERIOD ADJUSTMENTS

Pursuant to Section 216.301(2), Florida Statutes, the Florida Department of Education required the District to revert to the State the 2008-09 fiscal year fixed capital outlay Public Education Capital Outlay (PECO) and Classrooms First appropriations of \$25,845 and \$72,539, respectively. In addition, the District was required to revert the 2007-08 Classrooms for Kids appropriation of \$130,147 and the 2010-11 fiscal year capital outlay

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

PECO funds of \$30,777.36. Since these appropriations were recorded in a prior fiscal year as revenues in the Capital Projects – PECO Fund and Capital Projects – Other Fund, respectively, the District reduced the beginning fund balances of these funds on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds by these amounts, and the beginning net position balance by \$259,308.36 on the Statement of Activities.

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 capital projects funds are combined and invested to extent available. Earnings are allocated monthly to each capital projects fund balance on average daily balances.

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 3,777,273.97
Fund B	2.86 Year Average	72,374.85
Total Investments		<u>\$ 3,849,648.82</u>

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

➤ Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 years. However,

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

because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to bids from qualified depositories, as defined in Section 280.02, Florida Statutes; financial deposit instruments insured by the Federal Deposit Insurance Corporation (FDIC); time deposits; securities of the United States Government; State managed cooperative investment plans; or other forms of authorized investments in accordance with Section 218.415, Florida Statutes.

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

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

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	\$ 4,711,650.00	\$	\$	\$ 4,711,650.00
Land Improvements	10,025,305.66			10,025,305.66
Total Capital Assets Not Being Depreciated	14,736,955.66			14,736,955.66
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,092,051.64			5,092,051.64
Buildings and Fixed Equipment	44,177,760.51			44,177,760.51
Furniture, Fixtures, and Equipment	1,018,211.07	377,738.97	59,547.18	1,336,402.86
Motor Vehicles	1,778,537.43			1,778,537.43
Computer Software	467,691.58	19,082.00	2,585.00	484,188.58
Total Capital Assets Being Depreciated	52,534,252.23	396,820.97	62,132.18	52,868,941.02
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,729,303.38	338,210.59		2,067,513.97
Buildings and Fixed Equipment	5,275,113.99	882,549.23		6,157,663.22
Furniture, Fixtures, and Equipment	521,457.05	119,907.91	56,191.66	585,173.30
Motor Vehicles	1,433,625.35	128,988.07		1,562,613.42
Computer Software	340,469.55	37,191.82	2,585.00	375,076.37
Total Accumulated Depreciation	9,299,969.32	1,506,847.62	58,776.66	10,748,040.28
Total Capital Assets Being Depreciated, Net	43,234,282.91	(1,110,026.65)	3,355.52	42,120,900.74
Governmental Activities Capital Assets, Net	\$ 57,971,238.57	\$ (1,110,026.65)	\$ 3,355.52	\$ 56,857,856.40

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

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 128,988.07
Unallocated	<u>1,377,859.55</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,506,847.62</u></u>

D. Florida Retirement System

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

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

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

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
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.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal year ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$413,435.01, \$363,915.06, and \$554,863.08, respectively, which were equal to the required contributions for each fiscal year.

There were 15 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$55,700.81, 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).

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,

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

employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, the Board contributes \$25,000 annually towards the cost of retiree life and health insurance premiums. Premiums for life insurance are fully paid by the Board and the remainder of the \$25,000 is divided equally between all retirees covered through the District's plan in the form of a subsidy for the health insurance premiums. As the number of eligible retirees fluctuates, so does the amount of the subsidy. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 11 retirees received other postemployment health benefits and 108 retirees received life insurance coverage. The District provided required contributions of \$73,421 toward the annual OPEB cost, net of retiree contributions totaling \$170,475, which represents 3.1 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:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 24,640
Amortization of Unfunded Actuarial Accrued Liability	<u>107,937</u>
Annual Required Contribution	132,577
Interest on Net OPEB Obligation	9,581
Adjustment to Annual Required Contribution	<u>(25,619)</u>
Annual OPEB Cost (Expense)	116,539
Contribution Toward the OPEB Cost	<u>(73,421)</u>
Increase in Net OPEB Obligation	43,118
Net OPEB Obligation, Beginning of Year	<u>281,807</u>
Net OPEB Obligation, End of Year	<u><u>\$ 324,925</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	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2011-12	\$ 100,753	55.0%	\$ 239,791
2012-13	114,133	63.2%	281,807
2013-14	116,539	63.0%	324,925

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$1,129,228, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,129,228 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,540,043, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 20.4 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.

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

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

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and to estimate the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.4 percent per year, projected salary increases of 4 to 8.25 percent, and an annual healthcare cost trend rate of a 5.5 percent decrease beginning in the January 2013 plan year, increased to 8 percent beginning January 1, 2014, and decreasing to an ultimate rate of 5.42 percent beginning January 2022. The investment rate of return and projected salary increase rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, was 10 years.

F. Risk Management Programs

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

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

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

G. Long-Term Liabilities

1. Notes Payable

The District entered into a financing arrangement on December 29, 2006, which was characterized as a lease-purchase agreement, with the Leasing Corporation, whereby the District secured financing of various educational facilities in the amount of \$16,350,000. The financing was accomplished through the issuance of two promissory notes, Notes 2006 and 2007, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing agreement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$1 per year. The initial term of the lease commenced on December 29, 2006, and ends on the earlier of the date on which the notes have been paid, or June 30, 2034 (both dates inclusive). The property covered by the ground lease is, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement to the Leasing Corporation, or the Bank as the assignee of the Leasing Corporation.

The District property included in the ground lease under this arrangement is located in the West one half of Fractional Section 23, Township 8 South, Range 6 West, as more fully described in the Ground Lease Agreement. The lease payments are payable by the District annually, on June 30, at an interest rate of 4.58 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2015	\$ 1,537,740.06	\$ 1,022,120.47	\$ 515,619.59
2016	1,537,740.06	1,068,301.15	469,438.91
2017	1,537,740.06	1,119,191.52	418,548.54
2018	1,537,740.05	1,171,162.42	366,577.63
2019	1,537,740.06	1,225,546.65	312,193.41
2020-2023	6,150,960.22	5,497,523.24	653,436.98
Total	<u>\$ 13,839,660.51</u>	<u>\$ 11,103,845.45</u>	<u>\$ 2,735,815.06</u>

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

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					
Notes Payable	\$ 12,080,610.87	\$	\$ 976,765.42	\$ 11,103,845.45	\$ 1,022,120.47
Compensated Absences Payable	510,974.05	74,671.04	247,192.03	338,453.06	90,000.00
Other Postemployment Benefits Payable	281,807.00	116,539.00	73,421.00	324,925.00	
Total Governmental Activities	<u>\$ 12,873,391.92</u>	<u>\$ 191,210.04</u>	<u>\$ 1,297,378.45</u>	<u>\$ 11,767,223.51</u>	<u>\$ 1,112,120.47</u>

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

H. Fund Balance Reporting

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

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

I. 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	\$ 90,351.21	\$ 1,452,256.10
Capital Projects:		
Local Capital Improvement	1,407,307.36	
Nonmajor Governmental	44,948.74	90,351.21
Total	<u>\$ 1,542,607.31</u>	<u>\$ 1,542,607.31</u>

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

The above interfund receivables and payables mainly represent moneys owed to the Capital Projects – Local Capital Improvement Fund for temporary loans to the General Fund. These amounts are expected to be repaid within one year.

J. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

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

<u>Source</u>	<u>Amount</u>
Categorical Educational Program - Class Size Reduction	\$ 1,311,314.00
Florida Education Finance Program	1,087,169.00
State Forest Funds	174,854.26
Charter School Capital Outlay Funds	140,890.00
Voluntary Prekindergarten Program	135,548.34
Classrooms First Program	76,588.82
Workforce Development Program	56,631.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	45,655.74
School Recognition Fund	28,056.00
Food Service Supplement	17,087.00
Discretionary Lottery Funds	11,206.00
Miscellaneous	352,059.60
Total	\$ 3,437,059.76

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 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	3.179	\$ 5,439,162
Prior Period Funding Adjustment	0.244	417,476
Basic Discretionary Local Effort	0.748	1,279,803
Voted School Tax:		
Additional Operating	0.500	855,483
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.000	1,710,966
Total	5.671	\$ 9,702,890

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

K. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 571,098.34	\$ 130,338.12
Debt Service:		
Other	1,537,740.05	12,420.00
Capital Projects:		
Local Capital Improvement	27,710.00	1,789,338.39
Nonmajor Governmental	102,628.12	307,080.00
Total	<u>\$ 2,239,176.51</u>	<u>\$ 2,239,176.51</u>

Transfers to the General Fund were for reimbursements of maintenance expenditures and property insurance premiums. Additionally, \$306,000 of unrestricted debt service moneys were transferred from a nonmajor debt service fund to the General Fund. Transfers to the Debt Service – Other Fund were to cover debt service costs. Transfers from the General Fund to the Capital Projects – Local Capital Improvement Fund and a nonmajor capital projects fund were to restore questioned costs.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Through State and Local	\$ 110,464.10	\$ 171,271.70	\$ 171,271.70	\$
State	2,317,441.00	2,851,519.77	2,851,519.77	
Local:				
Property Taxes	7,690,751.08	7,791,798.73	7,791,798.73	
Miscellaneous	256,769.33	259,564.22	259,564.22	
Total Local Revenues	<u>7,947,520.41</u>	<u>8,051,362.95</u>	<u>8,051,362.95</u>	
Total Revenues	<u>10,375,425.51</u>	<u>11,074,154.42</u>	<u>11,074,154.42</u>	
Expenditures				
Current - Education:				
Instruction	6,602,990.00	6,952,098.27	6,952,098.27	
Student Personnel Services	155,844.23	222,429.87	222,429.87	
Instructional Media Services	70,824.17	52,604.78	52,604.78	
Instruction and Curriculum Development Services				
Instructional Staff Training Services	5,000.00	7,688.52	7,688.52	
Instruction Related Technology	14,459.40	65,827.35	65,827.35	
School Board	381,059.96	380,628.98	380,628.98	
General Administration	192,804.07	189,188.23	189,188.23	
School Administration	417,548.78	364,161.28	364,161.28	
Facilities Acquisition and Construction		548.00	548.00	
Fiscal Services	328,481.62	302,007.48	302,007.48	
Central Services	447,410.18	371,870.10	371,870.10	
Student Transportation Services	572,397.87	712,349.08	712,349.08	
Operation of Plant	898,539.00	955,438.26	955,438.26	
Maintenance of Plant	204,933.80	130,618.95	130,618.95	
Administrative Technology Services	36,959.40	31,045.97	31,045.97	
Fixed Capital Outlay:				
Other Capital Outlay		15,249.00	15,249.00	
Total Expenditures	<u>10,329,252.48</u>	<u>10,753,754.12</u>	<u>10,753,754.12</u>	
Excess of Revenues Over Expenditures	<u>46,173.03</u>	<u>320,400.30</u>	<u>320,400.30</u>	
Other Financing Sources (Uses)				
Transfers In	647,060.00	571,098.34	571,098.34	
Transfers Out		(130,338.12)	(130,338.12)	
Total Other Financing Sources	<u>647,060.00</u>	<u>440,760.22</u>	<u>440,760.22</u>	
Net Change in Fund Balances	<u>693,233.03</u>	<u>761,160.52</u>	<u>761,160.52</u>	
Fund Balances, Beginning	<u>134,870.56</u>	<u>(1,721.25)</u>	<u>(1,721.25)</u>	
Fund Balances, Ending	<u>\$ 828,103.59</u>	<u>\$ 759,439.27</u>	<u>\$ 759,439.27</u>	<u>\$ 0.00</u>

43

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 1,534,105	\$ 1,534,105	0.0%	\$ 5,372,276	28.6%
October 1, 2010	0	933,764	933,764	0.0%	5,542,726	16.8%
October 1, 2012	0	1,129,228	1,129,228	0.0%	5,540,043	20.4%

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

**FRANKLIN 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 transportation services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2012, unfunded actuarial accrued liability of \$1,129,228 was significantly higher than the October 1, 2010, liability of \$933,764 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of retirees currently receiving postemployment health benefits increased from 12 in the October 1, 2010, valuation to 24 in the October 1, 2012, valuation, increasing the cost and liability. At the same time, the number of active employees eligible for future postemployment benefits decreased from 157 in the October 1, 2010, valuation to 149 in the October 1, 2012, valuation, decreasing the cost and liability.
- The total cost of coverage decreased from \$813 per employee per month (as expected for the year beginning January 1, 2011) to \$701 per employee per month for the year beginning January 1, 2013. This is lower than the projected \$758 per employee per month, decreasing the cost and liability.
- The assumed trend for medical and prescription costs was decreased. In the October 1, 2010, valuation, it was assumed the trends for costs and premiums would be 8 percent for the year beginning January 1, 2014, reduced to 7.5 percent in the following year with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. Revisions were made to trend rates for costs and premiums charged to retirees beginning January 1, 2014, to be 5.5 percent lower for costs and premiums than for the year beginning January 1, 2013. A similar pattern was then followed: 8 percent for costs and premiums for the year beginning January 1, 2015, and decreasing 0.5 percent each subsequent year until reaching the ultimate rate of 5 percent, decreasing cost and liability.
- The District Plan is not projected to be assessed the Excise Tax on High-Cost Employer Health Plans until at least plan year 2022. It is estimated that absent any plan changes, this will result in a 0.42 percent increase in the cost of coverage for the plan year 2022 and all subsequent years, in addition to 5 percent medical inflation assumed for each year for a total increase of 5.42 percent over the previous plan year. This change increased the cost and liability.

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2014**

- The assumed cost of coverage for retirees eligible for Medicare was revised. In the prior valuation, it was assumed that the plan would pay as secondary for all claims covered under Medicare Parts A and B and the employer's costs to the Plan for claims incurred by a Medicare eligible retiree would be 60 percent lower than the cost of the same claim incurred by a retiree who was not eligible for Medicare benefits. This is referred to as "Medicare Offset" although some of it may be paid by a retiree. In the current valuation, the percentage was decreased to 50 percent as not all of the eligible retirees are enrolling into Medicare Part B. This change had a substantial increasing effect on the results of the valuation.
- Revisions were made to certain demographic assumptions to reflect changes made to the FRS for its July 1, 2011, actuarial valuation, increasing cost and liability.
- The discount rate was lowered to 3.4 percent from 4.25 percent, increasing the cost and liability.

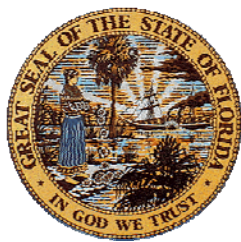
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FRANKLIN 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	\$ 214,632.95	\$
National School Lunch Program	10.555 (2)	13001, 13003	540,984.90	
Summer Food Service Program for Children	10.559	323, 325, 13006, 13007	46,873.28	
Total Child Nutrition Cluster			802,491.13	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	13004	27,500.00	
Total United States Department of Agriculture			829,991.13	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	322,874.18	28,631.19
Special Education - Preschool Grants	84.173	267	23,354.02	10,403.00
Total Special Education Cluster			346,228.20	39,034.19
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212	401,384.64	107,014.32
Career and Technical Education - Basic Grants to States	84.048	161	51,008.28	
Education for Homeless Children and Youth	84.196	127	21,042.00	
Twenty-First Century Community Learning Centers	84.287	244	305,504.68	
Rural Education	84.358	110	8,582.94	
Improving Teacher Quality State Grants	84.367	224	71,462.52	1,764.40
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211, RG411	255,685.18	
Total United States Department of Education			1,460,898.44	147,812.91
Total Expenditures of Federal Awards			\$ 2,290,889.57	\$ 147,812.91

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 \$52,282.55 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin 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 23, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, 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.

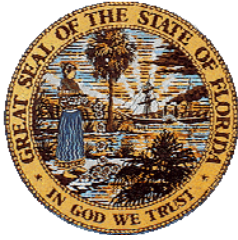
Purpose of this Report

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 23, 2015



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on Compliance for Each Major Federal Program

We have audited the Franklin 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 and 2014-002. 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 23, 2015

**FRANKLIN 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:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

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

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

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

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

The salary schedule and union contract provided for certain types of differentiated pay; however, without a Board-established documented process for identifying which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2013-159 and 2014-142.

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

Finding No. 2: Background Screenings

Pursuant to Section 1012.32(2)(a), Florida Statutes, instructional and noninstructional personnel must undergo background screenings required under Sections 1012.465 and 1012.56(10), Florida Statutes, whichever is applicable. Also, instructional and noninstructional personnel background screenings are required every five years following the initial screening upon employment. In addition, Sections 1012.465 and 1012.467, Florida Statutes, provide that instructional and noninstructional contractors who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background screenings at least every five years. Section 1012.468, Florida Statutes, provides exceptions to background screenings if the noninstructional contractors are under the direct supervision of District personnel or the contractor has met the screening requirements.

Our test of 25 instructional and noninstructional personnel and 12 instructional and noninstructional contractor workers who were not under the direct supervision of District personnel disclosed 3 instructional contractor workers and 3 noninstructional contracted nurses had not obtained the required background screenings. District personnel

indicated the required background screenings of the nurses were previously performed but were inadvertently deleted from the system, and the other exceptions occurred because of oversights. District records also did not evidence background screenings within the last five years for 10 instructional personnel, 6 noninstructional personnel, and 2 contractor workers. Subsequent to our inquiries, as of January 2015, the District had rescreened 7 of the 10 instructional personnel (2 of the 10 instructional personnel had retired), 4 of the 6 noninstructional personnel, and the 2 contractor workers. District personnel were initially unaware that the fingerprints of employees and contractors had to be resubmitted every five years, but are currently evaluating which employees and contractors need to be rescreened.

Without documented evidence of the required background screenings of instructional and noninstructional personnel and contractors, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should continue its efforts to ensure that required background screenings are timely performed.

Finding No. 3: New Hires

Section 1012.22, Florida Statutes, requires the Board designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. This section also requires the Board to adopt a salary schedule or schedules to be used as a basis for paying employees. In addition, Section 1012.55, Florida Statutes, requires, in part, that each person employed as school administrator or athletic coach hold the certificate required by law and State Board of Education (SBE) rules. Further, SBE Rule 6A-4.0082, Florida Administrative Code (FAC), provides the specialization requirements for school administrators, such as assistant principals and principals, including a master's degree, teaching certification in educational leadership or administration/supervision, participation in an educational leadership program, and passing the Florida Educational Leadership Examination (FELE).

District procedures for hiring new personnel were generally designed properly and operating effectively; however, our review of four new hires during the 2013-14 fiscal year disclosed the following:

- In April 2013, the Superintendent recommended and the Board approved an applicant to fill a bus mechanic position. However, the District inadvertently excluded from the Board-approved salary schedule the bus mechanic's salary, and the District paid the employee \$32,237 based on the salary schedule maintenance position. We also noted the bus mechanic received an athletic coaching supplement of \$832.33 although the employee did not have the certification required by Section 1012.55, Florida Statutes.
- In May 2013 and September 2014, the Board approved the Superintendent's recommendation for two individuals to serve as assistant principals at the Franklin County K-12 School, one for the 2013-14 fiscal year and the other for the 2014-15 fiscal year; however, District records did not evidence that the individuals met the job qualifications. Both employees had master's degrees, but lacked teaching certifications in educational leadership or administration/supervision, participation in an educational leadership program, and passing the FELE, contrary SBE Rule 6A-4.0082, FAC. According to District personnel, there were only two applicants each of the two times the position was advertised and it was difficult to properly fill these positions due to the District's small size and geographical location. In September 2014, the Board approved one of the employees to serve as principal for the remainder of the 2014-15 fiscal year. District personnel indicated that as of January 2015, this employee had participated in an educational leadership program and passed the FELE.

Ensuring that new hires meet specified job requirements provides additional assurance that such individuals will be competent to fulfill the responsibilities of their positions. Also, paying employees pursuant to the Board-approved salary schedule ensures that compensation is consistent with Board intent.

Recommendation: The District should enhance its procedures to ensure individuals hired meet specified job requirements and are paid pursuant to Board-approved salary schedules.

Finding No. 4: Health Insurance

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to provide a comprehensive group health and hospitalization insurance policy and the District contributed monthly \$493.56 toward the health insurance of each full-time employee, and \$55 toward the health insurance of each eligible retiree pursuant to Section 112.0801, Florida Statutes. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan upon employment, during open enrollment periods, and make changes to their coverage outside of enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. During the 2013-14 fiscal year, 134 employees contributed a total of \$198,219.47 and 18 retirees contributed a total of \$97,522.55 to participate in the District's health insurance plan, and the District contributed \$935,575.92 toward the plan. Also, 76 dependents participated in the health insurance plan.

Our review disclosed that the District's controls over the health insurance plan could be enhanced, as follows:

- The District contracts with two health insurance providers who require the District to pay in advance for health insurance coverage. Monthly participation changes caused by employment terminations or new hires must be submitted with insurance billings and are adjusted on future billings. While District personnel determined whether billings agreed with the District payroll deduction and Board contribution records for the month, the District paid the billings without explaining the differences between the billings and District records. For example, our review of one monthly health insurance billing of \$33,173 disclosed that the insurance billing exceeded payroll deductions and Board contributions by \$5,200.

District personnel indicated that the \$5,200 difference occurred from retiree premium contributions, Board premium contributions for retirees, and billing adjustments; however, District records did not initially explain the \$5,200 difference. Subsequent to our inquiries, District personnel provided documentation that agreed with their explanation. Without prompt reconciliations of insurance billings to payroll deduction and Board contribution records that identify and resolve differences noted, the risk is increased that payments may be inconsistent with the Board's health insurance plan or for overpayments to occur.

- The District collected retiree premium contributions, made copies of the checks, and filed them in monthly folders; however, District personnel did not compare the retiree portion of premiums owed to actual collections from retirees. Without such, the District may not be collecting all premiums due from retirees, which could cause the District to contribute more for the retiree premiums than authorized by the Board.
- The District did not require employees or retirees purchasing health insurance for their dependents to provide documentation, such as birth certificates, evidencing the dependents' eligibility. Without verifying the eligibility of dependents covered through the District's health insurance plan, there is an increased risk that dependents receiving insurance coverage may be ineligible participants.

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

Recommendation: The District should enhance its procedures to prepare monthly reconciliations, monitor retiree payments, and verify the eligibility of dependents covered by the District's health insurance plan.

Finding No. 5: 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, due to the relatively small size of the District, the Superintendent and the Director of Financial Services review and approve all purchase orders issued. In addition, the Superintendent and Board Chair sign every check written by the District either manually or using their signature stamp.

The Superintendent, Board members, and Director of Financial Services were required to file a statement of financial interests pursuant to Section 112.3145, Florida Statutes; although, the Director of Financial Services did not file the required statement because she was unaware of the requirement. However, the statements of financial interests were not provided to personnel responsible for procurement decisions for review.

Subsequent to our inquiry in January 2015, the Director of Financial Services reviewed the most recent required statements of financial interests of the Superintendent and Board members and noted no apparent conflicts of interests. Providing for routine review and consideration of required statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should strengthen its procedures to ensure that employees file required statements of financial interests and provide for routine review of required statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 6: 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.

During the 2013-14 fiscal year, there was one full-time and 69 part-time students that participated in VIP courses. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established comprehensive, written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. The absence of such policies and procedures may have contributed to the lack of background screenings discussed below.

Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel in accordance with Section 1012.32, Florida Statutes. The District contracted with the Florida Virtual School (FLVS) for VIP instructors and the contract provided that the FLVS would conduct background screenings for all employees or contracted personnel. The District relied on the contract provisions and did not request or obtain confirmation that the VIP instructors were subject to background screenings. Without

effective controls to ensure that VIP provider instructors are subjected to required background screenings, there is an increased risk that instructors may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data or information technology resources.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should include verification that VIP instructors are subject to required background screenings.

Finding No. 7: Information Technology – Timely Deactivation of Access Privileges

Effective management of information technology (IT) access privileges includes the timely deactivation of IT access privileges when an employee is terminated, reassigned, or no longer authorized access to information resources. As certain critical application systems and confidential or sensitive data is stored within the District's computing environment, prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources. Periodic reviews of assigned access privileges and application profiles are necessary to ensure that employees can only access IT resources that are necessary to ensure that employees cannot access IT resources inconsistent with their job responsibilities and to detect any former employee access privileges that were inadvertently not removed.

District records indicated that security software controlled access to the District's application systems, datasets, and programs that allowed update access to finance and payroll records. We tested District records of ten employees with access privileges to the security software during the 2013-14 fiscal year and noted that an employee on extended medical leave and an employee who was reassigned did not have their access privileges deactivated because District personnel did not perform periodic reviews of assigned access privileges. Subsequent to our inquiry in November 2014, the District deactivated the access privileges of these employees.

When security software access privileges that are no longer required for employees' assigned responsibilities are not timely deactivated, the risk is increased that the access privileges may be misused to compromise the confidentiality, integrity, or availability of the District's application systems, datasets, and programs. Similar findings were noted in our report Nos. 2013-159 and 2014-142.

Recommendation: The District should continue its efforts to ensure timely deactivation of security software access privileges of former or reassigned employees.

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: Not Applicable

Subrecipient Monitoring. 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 solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at

least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. Also, entities that pass-through Federal funding to other entities are responsible, in part, for monitoring the subrecipients' activities to obtain reasonable assurance that the subrecipients administer Federal awards in compliance with Federal requirements.

During the 2013-14 fiscal year, the District sponsored the Apalachicola Bay Charter School (Charter School) and passed through Special Education Cluster funds totaling \$32,427 for salaries and benefits to the Charter School. District personnel indicated that subrecipient monitoring procedures included a review of the FA 399s submitted with each invoice along with supporting expenditure reports from the Charter School that detailed the salaries and benefits incurred. In addition, the Charter School submitted time and effort certifications for August 2013 through December 2013. However, due to oversight, the District did not obtain time and effort certifications for January 2014 through May 2014. Subsequent to our inquiries, the Charter School employees documented that their duties and responsibilities were properly charged to the programs.

Absent adequate subrecipient monitoring procedures, the risk increases that subrecipients may use Federal funds for unauthorized purposes and not comply with grant provisions.

Recommendation: The District should enhance its procedures for monitoring Federal moneys passed through to subrecipients to ensure that required documentation is maintained to support salary and benefits charges to Federal programs.

District Contact Person: Dr. Sue Summers, Director of Special Programs

Federal Awards Finding No. 2014-002:

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: Not Applicable

Allowable Costs/Cost Principles – Documentation of Time and Effort. 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 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. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

For the 2013-14 fiscal year, the District reported Special Education Cluster (SEC) expenditures of \$346,228, of which salaries and benefits totaled \$259,830. Our test of eight employees with salaries and benefits totaling \$208,718 disclosed one employee paid solely from the SEC and four employees paid partially from the SEC for which there was no time and effort documentation maintained for the entire fiscal year. For the remaining three employees paid partially from the SEC, we noted that time and effort documentation was maintained for August 2013 through December 2013. District personnel indicated that the lack of time and effort records was due to oversight. Subsequent to our inquiries, the employees documented that their duties and responsibilities were properly charged to the SEC.

Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal 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: Dr. Sue Summers, Director of Special Programs

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-142, except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2014-142, Finding No. 5	Audit Report No. 2013-159, Finding No. 6
7	Audit Report No. 2014-142, Finding No. 11	Audit Report No. 2013-159, Finding No. 10

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

*FRANKLIN 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 Awards Finding No.	Program / Area	Brief Description	Status	Comments
2014-142		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Nina M Marks
Superintendent

FRANKLIN COUNTY DISTRICT SCHOOLS

Administrative Offices
85 School Road Suite 1
Eastpoint FL 32328
(850) 670-2810-Phone (850) 670-8579-Fax



March 17, 2015

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

Dear Mr. Martin:

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

Finding No. 1: Compensation and Salary Schedules

The District continues to negotiate with our labor unions to develop a differentiated pay plan that complies with Florida Statute 1012.22(1)(c)4.b.

Finding No. 2: Background Screenings

The District has identified staff that must be background screened, and they have been screened. The District has also made strides to ensure that each non-instructional contractor has been through the appropriate screenings required by Florida Statutes.

Finding No. 3: New Hires

The District continues its efforts to hire qualified and, in February 2015, the District added the Mechanic salary to the Board-approved schedule.

Finding No. 4: Health Insurance

In January 2015, the Finance Department requested that our insurance agent start obtaining documentation, such as birth certificates and marriage records, before a dependent can be added to our medical insurance. The insurance agent will also send a copy of such documentation to the Finance Department. The Payroll Specialist prepares monthly insurance reconciliations to identify any discrepancies. The Director of Financial Services reviews the reconciliations monthly and monitors retiree payments. In April 2015, the District will begin utilizing the Florida Retirement System Insurance Payroll Deductions to collect retiree insurance premiums.

Finding No. 5: Purchasing Procedures

The Board is adopting a policy to reflect this routine review of required statements of financial interest by the Finance Department for consideration in making procurement decisions.

District 1
George Thompson

District 2
Pam Marshall

District 3
Teresa Ann Martin
Vice Chair

District 4
Stacy Kirvin

District 5
Pam Shiver
Chair

An Equal Opportunity Employer
www.franklincountyschool.org

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE



Nina M Marks
 Superintendent

FRANKLIN COUNTY DISTRICT SCHOOLS

Administrative Offices
 85 School Road Suite 1
 Eastpoint FL 32328
 (850) 670-2810-Phone (850) 670-8579-Fax



T OGETHER
E VERYONE
A CHIEVES
M ORE

Finding No. 6: Virtual Instruction Program Policies and Procedures

The District Virtual School Director will create and maintain comprehensive, written VIP policies and procedures. In addition, the District Virtual School Director will request a list of Instructor names and documentation from each VIP provider that reflects valid background screenings are in place.

Finding No. 7: Information Technology – Timely Deactivation of Access Privileges

The District Director of Auxiliary Services and Director of Financial Services will quarterly review access privileges assigned to employees. Employees will only be given access privileges that are required for their job. Any access privileges that are not required will immediately be deactivated.

FEDERAL AWARDS:

Finding No. 1: Subrecipient Monitoring: Special Education Cluster

The District has created additional and enhanced procedures to ensure that individuals paid from federal funds at the Apalachicola Bay Charter School, are working in the areas approved for the expenditure of federal funds. Complete time and effort logs will be completed and returned to the District at least semiannually.

Finding No. 2: Reporting

The District has put in place additional procedures to ensure that those individuals paid from federal funds are working in the areas approved for expenditures of these funds. The time and effort logs will be collected semiannually from these individuals and maintained at the District office.

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

Sincerely,

Nina M. Marks
 Superintendent

District 1
 George Thompson

District 2
 Pam Marshall

District 3
 Teresa Ann Martin
 Vice Chair

District 4
 Stacy Kirvin

District 5
 Pam Shiver
 Chair

An Equal Opportunity Employer
www.franklincountyschool.org