

LAKE 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>
Bill Mathias	1
Rosanne Brandeburg	2
Tod Howard, Vice Chair from 11-18-13	3
Debbie Stivender, Vice Chair to 11-17-13, Chair from 11-18-13	4
Kyleen Fischer, Chair to 11-17-13	5

Dr. Susan E. Moxley, 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 Jeffrey L. Cardinali, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District did not always provide monthly financial reports on a timely basis to the Board to assist in making appropriate policy decisions.

Finding No. 2: The District did not provide for a separate audit of the school internal funds, contrary to State Board of Education Rule 6A-1.087, Florida Administrative Code.

Finding No. 3: Controls over transportation inventories needed to be enhanced.

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

Finding No. 5: The District did not file annual reports required for its health self-insurance plan with the Florida Department of Financial Services, Office of Insurance Regulation, contrary to Section 112.08(2)(b), Florida Statutes. Also, the health self-insurance plan's net position declined from \$1,664,051 at June 30, 2013, to \$256,569 at June 30, 2014.

Finding No. 6: The Superintendent's 2013-14 fiscal year employment agreement included a severance pay provision that did not appear to be consistent with Section 215.425(4)(a), Florida Statutes.

Finding No. 7: Procedural enhancements were needed to ensure documented supervisory review and approval of noninstructional contracted personnel work time.

Finding No. 8: Controls over guaranteed maximum price construction contracts could be improved.

Finding No. 9: Controls over the enterprise resource software selection process could be enhanced.

Finding No. 10: The District did not utilize the competitive selection procedures prescribed by Section 218.391, Florida Statutes, to select an auditor to conduct the financial audit required by Section 218.39, Florida Statutes. Also, controls over the contracting and payment for the audit services could be enhanced.

Finding No. 11: 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. 12: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

Finding No. 13: The District could enhance its procedures to ensure that timely, written notifications are provided to parents about all VIP options offered and dates of open enrollment periods.

Finding No. 14: The District's control procedures needed to be enhanced to ensure that VIP students and their parents are notified about the availability of computing resources.

Finding No. 15: The District's monitoring and documenting of VIP student attendance needed improvement.

Finding No. 16: District IT security controls related to user authentication, data loss prevention, and logging and monitoring of system activity needed improvement.

Summary of Report on Federal Awards

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

Audit Objectives and Scope

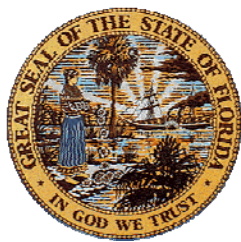
Our audit objectives were to determine whether the Lake County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

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

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

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

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

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

Opinions

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

Emphasis of Matter

As discussed in note 1 to the basic financial statements, the District adopted new accounting guidance Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This reporting change affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the District School Board of Lake County, Florida, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of this District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with our financial statements.

FINANCIAL HIGHLIGHTS

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

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$444,420,394.
- The District's total net position increased by \$2,733,316.
- As of the close of the current fiscal year, the District's governmental funds reported combined fund balances of \$97,247,952, a decrease of \$8,335,026 in comparison with the prior fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,022,308 or 4.3 percent of total General Fund Revenues. The unassigned fund balance is available for spending at the District's discretion.
- The District's total long-term liabilities decreased by \$18,062,804 or 5.2 percent during the current fiscal year. The key factor in this decrease was the repayment of outstanding debt.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements Reporting the District as a Whole

The government-wide financial statements provide both long-term and short-term information about the District's overall financial status. The subsequent statements are fund financial statements that focus on individual parts of the District and provide greater detail of the District's operations than the government-wide statements.

Additionally, the basic financial statements include notes, which explain some of the information in the statements and provide more detailed data.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's nonfiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the District is improving or deteriorating.

The statement of activities provides information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include such functions as instruction, student personnel services, administration, student transportation, maintenance, and other items. The business-type activities of the District include the Extended Learning Center Program.

The government-wide financial statements include not only the District itself (known as the primary government), but also 10 charter schools and the Educational Foundation of Lake County, Inc., for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Financing Corporation for the School Board of Lake County, Florida, Inc. (Financing Corporation), although also legally separate, was formed to facilitate financing for the acquisition of facilities and equipment. Due to substantive economic relationship between the District and Financing Corporation, the Financing Corporation has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 12 through 15 of this report.

Fund 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be put into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 funds 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 evaluating 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Special Revenue – Federal Economic Stimulus Fund, and the Capital Projects – Other Capital Projects Fund which are considered to be major funds. Data from the other 9 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds: The District maintains two different types of proprietary funds. The enterprise fund is used to report the same functions as business-type activities in the government-wide financial statements. The District uses the enterprise fund to account for its Extended Learning Center (before and after school child care) Program. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses four internal service funds to account for its self-funded employee health insurance program; self-insured worker's compensation, auto, and general liability insurance programs (other

self-funded insurance programs); employee flexible spending program; and printing services. Because these services predominantly benefit the governmental rather than the business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Extended Learning Center Program. The Extended Learning Centers provide before and after school care to elementary and middle school students enrolled in Lake County Schools. Expenses incurred for the operation of these programs are paid totally by fees collected for services. The basic proprietary fund financial statements can be found on pages 23 through 25 of this report.

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 Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position can be found on pages 26 and 27 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found following the basic financial statements on pages 28 through 62 of this report.

Required Supplementary Information

The District adopts an annual budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund and the Special Revenue – Federal Economic Stimulus Fund on pages 64 through 67 of this report to demonstrate compliance with this budget.

Notes to the Required Supplementary Information

The notes provide additional information that is essential to fully understand the data provided in the required supplementary information. The notes to required supplementary information can be found following the required supplementary information on page 69 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities by \$444,420,394 at June 30, 2014.

By far, the largest portion of the District's net position (86.1 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to educate the students of Lake County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a summary of the District's net position as of June 30, 2014, compared to the net position as of June 30, 2013.

	Net Position, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Current and Other Assets	\$ 132,147,631	\$ 137,484,457	\$ 1,421,389	\$ 1,443,876	\$ 133,569,020	\$ 138,928,333
Capital Assets	668,850,695	679,555,354			668,850,695	679,555,354
Total Assets	800,998,326	817,039,811	1,421,389	1,443,876	802,419,715	818,483,687
Deferred Outflows of Resources	3,379,431				3,379,431	
Current Liabilities	33,456,568	28,666,000	37,145	59,632	33,493,713	28,725,632
Noncurrent Liabilities	327,885,039	345,947,843			327,885,039	345,947,843
Total Liabilities	361,341,607	374,613,843	37,145	59,632	361,378,752	374,673,475
Net Position:						
Net Investment in Capital Assets	381,271,147	376,152,850			381,271,147	376,152,850
Restricted	74,689,386	78,577,667			74,689,386	78,577,667
Unrestricted (Deficit)	(12,924,383)	(12,304,549)	1,384,244	1,384,244	(11,540,139)	(10,920,305)
Total Net Position	\$ 443,036,150	\$ 442,425,968	\$ 1,384,244	\$ 1,384,244	\$ 444,420,394	\$ 443,810,212

A portion of the District's net position, \$74,689,386, represents resources that are subject to external restrictions on how they may be used. A decrease of \$3,888,281 in restricted net position reported in connection with the District's governmental activities was the result of construction expenses during the fiscal year from restricted capital funds.

The remaining deficit net position, \$12,924,383, reflects the shortfall that the District would have faced in the event that it would have had to liquidate all of its noncapital liabilities at June 30, 2014. The most significant liabilities (claims) against the unrestricted assets include the compensated absence liability of \$18,787,008 and the other post-employment benefits (OPEB) liability of \$9,836,999. Of the compensated absence liability, \$17,387,008, will be due more than one year from the date of the financial statements and does not require the use of current funds.

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		Business-Type		Total	
	Activities		Activities			
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Program Revenues:						
Charges for Services	\$ 5,297,559	\$ 6,220,382	\$ 2,837,515	\$ 2,568,624	\$ 8,135,074	\$ 8,789,006
Operating Grants and Contributions	15,435,995	14,876,571			15,435,995	14,876,571
Capital Grants and Contributions	2,627,495	1,500,630			2,627,495	1,500,630
General Revenues:						
Property Taxes	114,946,404	116,249,381			114,946,404	116,249,381
Other Taxes	12,158,522	11,266,759			12,158,522	11,266,759
Grants and Contributions (FEFP etc.)	207,545,391	188,905,815			207,545,391	188,905,815
Unrestricted Investment Earnings	19,159	53,890	646	790	19,805	54,680
Miscellaneous	7,029,232	4,031,437			7,029,232	4,031,437
Transfers	511,307	293,755	(511,307)	(293,755)		
Total Revenues	365,571,064	343,398,620	2,326,854	2,275,659	367,897,918	345,674,279
Functions/Program Expenses:						
Instruction	192,465,779	187,740,245			192,465,779	187,740,245
Student Personnel Services	16,093,486	16,191,197			16,093,486	16,191,197
Instructional Media Services	3,277,822	3,242,448			3,277,822	3,242,448
Instruction and Curriculum Development Services	7,710,547	8,232,173			7,710,547	8,232,173
Instructional Staff Training Services	6,002,273	6,479,677			6,002,273	6,479,677
Instruction Related Technology	1,994,896	2,516,538			1,994,896	2,516,538
Board of Education	833,945	855,214			833,945	855,214
General Administration	1,581,653	1,659,231			1,581,653	1,659,231
School Administration	16,804,142	16,554,207			16,804,142	16,554,207
Facility Services	4,521,695	7,937,827			4,521,695	7,937,827
Fiscal Services	1,700,875	1,636,310			1,700,875	1,636,310
Food Services	17,841,157	19,259,048			17,841,157	19,259,048
Central Services	8,133,693	7,362,386			8,133,693	7,362,386
Student Transportation Services	16,047,770	17,447,933			16,047,770	17,447,933
Operation of Plant	24,250,418	23,745,175			24,250,418	23,745,175
Maintenance of Plant	6,858,011	6,875,276			6,858,011	6,875,276
Administrative Technology Services	2,979,728	1,375,321			2,979,728	1,375,321
Community Services	71,989	131,004			71,989	131,004
Interest on Long-Term Debt	11,589,897	13,102,556			11,589,897	13,102,556
Depreciation - Unallocated	22,077,972	18,632,121			22,077,972	18,632,121
Extended Learning Center Program			2,326,854	2,120,355	2,326,854	2,120,355
Total Functions/Program Expenses	362,837,748	360,975,887	2,326,854	2,120,355	365,164,602	363,096,242
Increase (Decrease) in Net Position	2,733,316	(17,577,267)		155,304	2,733,316	(17,421,963)
Net Position - Beginning	442,425,968	460,003,235	1,384,244	1,228,940	443,810,212	461,232,175
Net Position - Beginning, Restated (1)	440,302,834	460,003,235	1,384,244	1,228,940	441,687,078	461,232,175
Net Position - Ending	\$ 443,036,150	\$ 442,425,968	\$ 1,384,244	\$ 1,384,244	\$ 444,420,394	\$ 443,810,212

(1) See note 1 to the financial statements.

The District's net position increased by \$2,733,316 during the current fiscal year. Most of the increase can be attributed to the increase in FEFP funding offset by a slight decrease in ad valorem taxes. Additional information on the District's revenue can be found in the notes to the basic financial statements.

Governmental Activities. Governmental activities increased the District's net position by \$2,733,316, thereby accounting for all of the total increase in the net position of the District. For the most part, the slight increase in expenses closely paralleled inflation.

Business-Type Activities. Business-type activities did not change the District's net position.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Major 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. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$97,247,952, a decrease of \$8,335,026 compared to the prior fiscal year.

As more fully discussed in the Notes to Basic Financial Statements, the Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on spending constraints, as follows:

- Restricted
- Committed
- Assigned
- Unassigned

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$12,022,308 while total fund balance reached \$15,571,306. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total revenues. Unassigned fund balance represents 4.3 percent of total General Fund revenues, while total fund balance represents 5.6 percent of that same amount. The remainder of fund balance is spendable subject to the level of restriction. The assigned fund balance includes encumbrances of \$954,547 which are not available for new spending because it has already been assigned to liquidate contracts and purchase orders outstanding. Funds related to specific State required carryover programs of \$883,042 are reported as restricted; inventory valued at \$1,680,003 and prepaid instructional material items totaling \$31,406 are reported as nonspendable.

Special Revenue Fund – Federal Economic Stimulus Fund is used to account for the financial resources received from the American Recovery and Reinvestment Act (ARRA) of 2009 program Race to the Top Grant, which requires separate accountability in accordance with legal and regulatory restrictions. Revenues and expenditures totaled \$1,120,142, each.

The Capital Projects - Other Capital Projects Fund is used to account for the financial resources generated by various capital funding sources. Included in this fund were Certificate of Participation Proceeds, Impact Fees, and other capital outlay-funded projects. The fund balance for this fund at the fiscal year end, which is restricted for capital projects, was \$46,216,447, a decrease of \$6,077,850 from the prior fiscal year. The decrease is partially reflected by the increase of \$5,118,297 in Net Investment in Capital Assets on the government wide Statement of Net Position.

Proprietary Funds

The District's proprietary funds provide the same type of information as business-type activities found in the government-wide financial statements. The District transferred a large portion, \$511,307, of the Extended Learning Center program revenue to the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the District's revenue and expenditure projections remained similar to original budgeted amounts.

The actual change in fund balance of the General Fund was more than the final budgeted amount by approximately \$1.2 million. This was due to a reapportionment of state funding that reduced the per student base funding during the fiscal year and transfers in from Capital Outlay funds to support capital expenditures made through the General Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for the governmental activities as of June 30, 2014, amounted to \$668,850,695 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; audio visual materials and computer software; and construction in progress. The total decrease in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was 1.6 percent.

	Governmental Activities	
	June 30, 2014	June 30, 2013
Land	\$ 19,454,943	\$ 19,508,735
Construction in Progress	6,598,323	7,369,622
Improvements Other Than Buildings, Net	654,423	618,806
Buildings and Fixed Equipment, Net	620,842,359	626,619,752
Furniture, Fixtures, and Equipment, Net	7,844,870	9,601,736
Motor Vehicles, Net	6,163,876	7,996,129
Property Under Capital Lease, Net	4,998,186	5,853,913
Audio Visual Materials and Computer Software, Net	2,293,715	1,986,661
Total Capital Assets, Net	<u>\$ 668,850,695</u>	<u>\$ 679,555,354</u>

Additional information on the District's capital assets can be found in note 4 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$299,261,032 as follows:

State Board of Education Bonds	\$ 9,012,000
Certificates of Participation	259,861,668
Sales Tax Revenue Bonds	6,595,000
Obligations Under Capital Lease	7,962,364
Note Payable	<u>15,830,000</u>
Total	<u>\$ 299,261,032</u>

During the current fiscal year, the District paid \$20,841,859 for principal payments on existing long-term debt as follows:

State Board of Education Bonds	\$ 855,000
Sales Tax Revenue Bonds	4,775,000
Certificates of Participation	13,325,000
Obligations Under Capital Lease	1,551,859
Note Payable	<u>335,000</u>
Total	<u>\$ 20,841,859</u>

The District began the process to refund two outstanding certificates of participation issues during the current fiscal year which will be completed and reflected in the 2014-15 Financial Statements. The refunding will not provide additional capital but, instead, will reduce future interest payments. The net value of the future savings related to the refunded debt will total \$4.1 million over the remaining life of the debt.

Additional information on the District's long-term debt can be found in notes 5 through 10 of the notes to the basic financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Lake County Schools, 201 West Burleigh Boulevard, Tavares, Florida 32778.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component
	Governmental	Business-Type	Total	Units
	Activities	Activities		
ASSETS				
Cash and Cash Equivalents	\$ 80,638,922	\$ 1,421,389	\$ 82,060,311	\$ 27,801,452
Investments	37,057,770		37,057,770	1,290,515
Accounts Receivable	6,342,149		6,342,149	107,605
Prepaid Items				38,871
Due from Other Agencies	5,311,516		5,311,516	555,027
Inventories	2,175,586		2,175,586	
Other Current Assets	31,406		31,406	599,050
Issuance Costs- Prepaid Insurance	590,282		590,282	
Capital Assets:				
Land and Construction in Progress	26,053,266		26,053,266	637,134
Depreciable Capital Assets	866,652,743		866,652,743	5,598,947
Accumulated Depreciation	(223,855,314)		(223,855,314)	(2,249,015)
Other Non-Current Assets				2,812,570
TOTAL ASSETS	800,998,326	1,421,389	802,419,715	37,192,156
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Debt Refunding	3,379,431		3,379,431	57,106
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,379,431		3,379,431	57,106
LIABILITIES				
Salaries and Benefits Payable	22,112,515		22,112,515	535,618
Payroll Deductions and Withholdings	5,872,873		5,872,873	
Accounts Payable	4,257,683	19,204	4,276,887	585,643
Construction Contracts Payable - Retainage	531,361		531,361	
Accrued Interest Payable	174,206		174,206	41,560
Deposits Payable	176,419		176,419	19,779
Due to Other Agencies	199,954		199,954	4,290,050
Unearned Revenue	131,557	17,941	149,498	338,912
Long-Term Liabilities:				
Portion Due Within One Year	28,927,757		28,927,757	2,211,289
Portion Due After One Year	298,957,282		298,957,282	1,064,460
TOTAL LIABILITIES	361,341,607	37,145	361,378,752	9,087,311
NET POSITION				
Net Investment in Capital Assets	381,271,147		381,271,147	2,578,152
Restricted for:				
State Required Carryover Programs	883,042		883,042	
Debt Service	11,307,463		11,307,463	201,429
Capital Projects	50,820,457		50,820,457	
Special Revenue - Food Service	11,678,424		11,678,424	
Other Purposes				3,619,255
Scholarships, Endowments, and Other Programs				3,720,072
Unrestricted	(12,924,383)	1,384,244	(11,540,139)	18,043,043
TOTAL NET POSITION	\$ 443,036,150	\$ 1,384,244	\$ 444,420,394	\$ 28,161,951

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

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**LAKE 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	\$ 192,465,779	\$	\$	\$
Student Personnel Services	16,093,486			
Instructional Media Services	3,277,822			
Instruction and Curriculum Development Services	7,710,547			
Instructional Staff Training Services	6,002,273			
Instruction Related Technology	1,994,896			
School Board	833,945			
General Administration	1,581,653			
School Administration	16,804,142			
Facilities Acquisition and Construction	4,521,695			1,324,179
Fiscal Services	1,700,875			
Food Services	17,841,157	5,039,804	15,435,995	
Central Services	8,133,693			
Student Transportation Services	16,047,770	257,755		
Operation of Plant	24,250,418			
Maintenance of Plant	6,858,011			
Administrative Technology Services	2,979,728			
Community Services	71,989			
Unallocated Interest on Long-Term Debt	11,589,897			1,303,316
Unallocated Depreciation	22,077,972			
Total Governmental Activities	362,837,748	5,297,559	15,435,995	2,627,495
Business-Type Activities:				
Extended Learning Center Program	2,326,854	2,837,515		
Total Primary Government	\$ 365,164,602	\$ 8,135,074	\$ 15,435,995	\$ 2,627,495
Component Units				
Charter Schools/Educational Foundation	\$ 46,134,833	\$ 3,007,944	\$ 5,219,623	\$ 52,760

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning, as Restated (See note 1)

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Primary Government		Component Units
	Business-Type Activities	Total	
\$ (192,465,779)	\$	\$ (192,465,779)	\$
(16,093,486)		(16,093,486)	
(3,277,822)		(3,277,822)	
(7,710,547)		(7,710,547)	
(6,002,273)		(6,002,273)	
(1,994,896)		(1,994,896)	
(833,945)		(833,945)	
(1,581,653)		(1,581,653)	
(16,804,142)		(16,804,142)	
(3,197,516)		(3,197,516)	
(1,700,875)		(1,700,875)	
2,634,642		2,634,642	
(8,133,693)		(8,133,693)	
(15,790,015)		(15,790,015)	
(24,250,418)		(24,250,418)	
(6,858,011)		(6,858,011)	
(2,979,728)		(2,979,728)	
(71,989)		(71,989)	
(10,286,581)		(10,286,581)	
(22,077,972)		(22,077,972)	
(339,476,699)		(339,476,699)	
	510,661	510,661	
(339,476,699)	510,661	(338,966,038)	
			(37,854,506)
90,899,334		90,899,334	
24,047,070		24,047,070	
12,158,522		12,158,522	
207,545,391		207,545,391	38,507,045
19,159	646	19,805	
7,029,232		7,029,232	2,097,386
511,307	(511,307)		
342,210,015	(510,661)	341,699,354	40,604,431
2,733,316		2,733,316	2,749,925
440,302,834	1,384,244	441,687,078	25,412,026
\$ 443,036,150	\$ 1,384,244	\$ 444,420,394	\$ 28,161,951

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 29,743,729	\$
Investments		
Accounts Receivable	5,789,648	
Due from Other Funds	2,486,542	
Due from Other Agencies	307,824	255,207
Inventories	1,680,003	
Prepaid Items	31,406	
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 40,039,152</u></u>	<u><u>\$ 255,207</u></u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 16,552,451	\$
Payroll Deductions and Withholdings	5,872,873	
Accounts Payable	1,841,670	41,797
Construction Contracts Payable - Retainage		
Due to Other Funds		213,410
Deposits Payable		
Accrued Interest Payable		
Due to Other Agencies	199,954	
Unearned Revenue	898	
	<u> </u>	<u> </u>
Total Liabilities	<u>24,467,846</u>	<u>255,207</u>
 Fund Balances:		
Nonspendable	1,711,409	
Spendable:		
Restricted	883,042	
Assigned	954,547	
Unassigned	12,022,308	
	<u> </u>	<u> </u>
Total Fund Balances	<u>15,571,306</u>	<u> </u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 40,039,152</u></u>	<u><u>\$ 255,207</u></u>

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

Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 9,784,914	\$ 34,601,639	\$ 74,130,282
36,818,119	239,651	37,057,770
350,000		6,139,648
		2,486,542
755,592	3,770,133	5,088,756
	467,011	2,147,014
		31,406
<u>\$ 47,708,625</u>	<u>\$ 39,078,434</u>	<u>\$ 127,081,418</u>
\$	\$	\$
		16,552,451
		5,872,873
960,817	1,149,474	3,993,758
531,361		531,361
	2,273,132	2,486,542
	176,419	176,419
	15,675	15,675
		199,954
	3,535	4,433
1,492,178	3,618,235	29,833,466
	467,011	2,178,420
46,216,447	34,993,188	82,092,677
		954,547
46,216,447	35,460,199	97,247,952
<u>\$ 47,708,625</u>	<u>\$ 39,078,434</u>	<u>\$ 127,081,418</u>

**LAKE 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 **\$ 97,247,952**

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.

Non-Depreciable Assets	\$ 26,053,266	
Depreciable Assets, net	<u>642,797,429</u>	668,850,695

Deferred charge on bond refundings are not expensed in the government-wide statements, but are reported as deferred outflows and amortized over the life of the debt.		3,379,431
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Prepaid insurance issuance costs on bond refundings are not expensed in the government-wide statements, but are reported as issuance costs and amortized over the life of the debt.		590,282
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Internal service funds are used by management to charge the costs of its self-funded insurance programs and print shop to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

Total Assets - Internal Service Funds	6,962,473	
Less, Total Liabilities - Internal Service Funds	<u>(5,951,113)</u>	1,011,360

Premiums paid on long-term debt issuances are reported as revenues in the governmental funds but as unamortized premiums in the government-wide statements and amortized over the life of the debt.		(10,491,668)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Note Payable	(15,830,000)	
Bonds Payable	(15,607,000)	
Certificates of Participation Payable	(249,370,000)	
Obligations Under Capital Lease	(7,962,364)	
Other Postemployment Benefits Payable	(9,836,999)	
Compensated Absences Payable	<u>(18,787,008)</u>	(317,393,371)

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		<u>(158,531)</u>
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Net Position - Governmental Activities **\$ 443,036,150**

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

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**LAKE 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
Revenues		
Intergovernmental:		
Federal Direct	\$ 331,036	\$
Federal Through State and Local	1,628,451	1,120,142
State	181,681,687	
Local:		
Ad Valorem Taxes	90,899,334	
Local Sales Taxes		
Impact Fees		
Food Service		
Other Local Revenue	4,965,688	
Total Revenues	<u>279,506,196</u>	<u>1,120,142</u>
Expenditures		
Current - Education:		
Instruction	181,071,347	30,827
Student Personnel Services	13,575,374	
Instructional Media Services	3,264,213	
Instruction and Curriculum Development Services	3,309,316	148,362
Instructional Staff Training Services	2,668,327	78,398
Instruction Related Technology	1,986,614	
School Board	830,483	
General Administration	834,044	34,769
School Administration	16,734,279	
Facilities Acquisition and Construction	533,637	
Fiscal Services	1,693,814	
Food Services		
Central Services	5,651,727	606,202
Student Transportation Services	15,901,172	
Operation of Plant	24,149,739	
Maintenance of Plant	6,829,539	
Administrative Technology Services	2,745,774	221,584
Community Services	70,810	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	3,261	
Other Capital Outlay	772,390	
Debt Service:		
Principal		
Interest and Fiscal Charges		
Total Expenditures	<u>282,625,860</u>	<u>1,120,142</u>
Deficiency of Revenues Over Expenditures	<u>(3,119,664)</u>	
Other Financing Sources (Uses)		
Premium on Sale of Bonds		
Refunding Bonds Issued		
Transfers In	6,020,416	
Transfers Out	(1,865,300)	
Total Other Financing Sources (Uses)	<u>4,155,116</u>	
Net Change in Fund Balances	1,035,452	
Fund Balances, Beginning	14,535,854	
Fund Balances, Ending	<u>\$ 15,571,306</u>	<u>\$</u>

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

Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	35,133	366,169
	36,420,207	39,168,800
157,051	2,726,979	184,565,717
	24,047,070	114,946,404
	12,158,522	12,158,522
976,542		976,542
	5,039,804	5,039,804
418,014	69,542	5,453,244
1,551,607	80,497,257	362,675,202
	10,564,554	191,666,728
	2,451,298	16,026,672
		3,264,213
	4,220,857	7,678,535
	3,230,628	5,977,353
		1,986,614
		830,483
	706,273	1,575,086
	98	16,734,377
		533,637
		1,693,814
	17,767,086	17,767,086
	21,317	6,279,246
	79,974	15,981,146
		24,149,739
		6,829,539
		2,967,358
	880	71,690
6,260,963	8,050,229	14,314,453
	272,305	1,044,695
	20,841,859	20,841,859
	13,759,071	13,759,071
6,260,963	81,966,429	371,973,394
(4,709,356)	(1,469,172)	(9,298,192)
	206,513	206,513
	1,342,000	1,342,000
	35,282,133	41,302,549
(1,368,494)	(38,654,102)	(41,887,896)
(1,368,494)	(1,823,456)	963,166
(6,077,850)	(3,292,628)	(8,335,026)
52,294,297	38,752,827	105,582,978
\$ 46,216,447	\$ 35,460,199	\$ 97,247,952

**LAKE 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 **\$ (8,335,026)**

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 that net capital outlays were less than depreciation expense of \$22,077,972. (9,479,182)

Premiums and Issuance Costs on new debt issues were reported when issued as other fiscal charges in the governmental funds, and the amounts were amortized over the life of the debt in the statement of activities. With the implementation of GASB 65 in the current year, the District only amortizes issuance costs related to prepaid insurance premiums.

Deferred Charges:			
Current Year		\$ 590,282	
Less Prior Year		2,780,579	
Net reduction in expenses from Deferred Charges			(2,190,297)

Unamortized Premiums/Deferred Loss:			
Current Year		(10,491,668)	
Less Prior Year		11,603,905	
Net increase in expenses from Unamortized Premiums/Deferred Loss			1,112,237

Deferred charge on refunding is reported as a deferred outflow of resources and amortized over the life of the debt in the statement of activities, but is reported as an expense in the governmental funds. 3,379,431

Other postemployment benefits costs are recorded in the governmental funds under the pay-as-you-go method, but under the full accrual method in the statement of activities. (739,991)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. (1,342,000)

Repayments of long-term liabilities are expenditures in the governmental funds, but repayments reduce long-term liabilities in the statement of net position.

Note Payable		335,000	
Bonds Payable		5,630,000	
Certificates of Participation Payable		13,325,000	
Obligations Under Capital Lease		1,551,859	20,841,859

Internal service funds are used by management to charge the cost of certain activities, such as insurance to individual funds. The changes in net position of internal service funds is reported with governmental activities.

Internal Service Funds - Change in Net Position	(731,104)
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Accrued interest payable is reported in the statement of net position. In the governmental funds, the costs are recognized as an expenditure in the fiscal year paid. (15,675)

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

233,064

Change in Net Position - Governmental Activities	<u>\$ 2,733,316</u>
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The accompanying notes to financial statements are an integral part of this statement.

**LAKE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2014**

	Business-Type Activities <u>Enterprise Fund - Extended Learning Center</u>	Governmental Activities <u>Internal Service Funds</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,421,389	\$ 6,508,640
Accounts Receivable		202,501
Due From Other Agencies		222,760
Inventories		<u>28,572</u>
Total Current Assets	<u>1,421,389</u>	<u>6,962,473</u>
TOTAL ASSETS	<u>1,421,389</u>	<u>6,962,473</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	19,204	263,925
Unearned Revenue	17,941	127,124
Estimated Insurance Claims Payable		<u>5,560,064</u>
Total Current Liabilities	<u>37,145</u>	<u>5,951,113</u>
TOTAL LIABILITIES	<u>37,145</u>	<u>5,951,113</u>
NET POSITION		
Unrestricted	<u>1,384,244</u>	<u>1,011,360</u>
Total Net Position	<u>1,384,244</u>	<u>1,011,360</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,421,389</u>	<u>\$ 6,962,473</u>

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

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

	Business-Type Activities Enterprise Fund - Extended Learning Center	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for Services	\$ 2,837,515	\$ 35,711,849
Total Operating Revenues	<u>2,837,515</u>	<u>35,711,849</u>
OPERATING EXPENSES		
Salaries	1,664,858	230,091
Employee Benefits	439,513	72,498
Purchased Services	58,415	136,076
Energy Services	13,212	18,035
Materials and Supplies	67,970	509,535
Capital Outlay	59,819	3,791
Insurance Claims		32,415,522
Other Expenses	<u>23,067</u>	<u>4,154,570</u>
Total Operating Expenses	<u>2,326,854</u>	<u>37,540,118</u>
Operating Income (Loss)	<u>510,661</u>	<u>(1,828,269)</u>
NONOPERATING REVENUES		
Interest Income	646	511
Transfers In		1,096,654
Transfers Out	<u>(511,307)</u>	
Total Nonoperating Revenues	<u>(510,661)</u>	<u>1,097,165</u>
Change in Net Position		(731,104)
Total Net Position - Beginning	<u>1,384,244</u>	<u>1,742,464</u>
Total Net Position - Ending	<u>\$ 1,384,244</u>	<u>\$ 1,011,360</u>

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

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

	Business-Type Activities Enterprise Fund - Extended Learning Center Program	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	\$ 2,800,263	\$ 35,501,608
Cash Payments to Suppliers for Goods and Services	(207,718)	(4,805,495)
Cash Payments for Insurance Claims		(29,027,780)
Cash Payments to Employees for Services	(2,104,371)	(302,589)
Net Cash Provided by Operating Activities	<u>488,174</u>	<u>1,365,744</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers In/Out	(511,307)	1,096,654
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	646	511
Net Increase (Decrease) in Cash and Cash Equivalents	(22,487)	2,462,909
Cash and Cash Equivalents, Beginning	1,443,876	4,045,731
Cash and Cash Equivalents, Ending	<u>\$ 1,421,389</u>	<u>\$ 6,508,640</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 510,661	\$ (1,828,269)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(199,382)
Increase in Due From Other Agencies		(12,459)
Decrease in Inventories		8,876
Increase in Accounts Payable	14,765	48,108
Increase in Estimated Insurance Claims Payable		3,387,742
Decrease in Due to Other Funds		(31,596)
Decrease in Unearned Revenue	(37,252)	(7,276)
Total Adjustments	<u>(22,487)</u>	<u>3,194,013</u>
Net Cash Provided by Operating Activities	<u>\$ 488,174</u>	<u>\$ 1,365,744</u>

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

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

	Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 200,967	\$ 2,582,305
TOTAL ASSETS	<u>\$ 200,967</u>	<u>\$ 2,582,305</u>
LIABILITIES		
Internal Accounts Payable	\$	\$ 2,582,305
Total Liabilities	<u>\$</u>	<u>\$ 2,582,305</u>
NET POSITION		
Net Position Held in Trust for Scholarships and Other Purposes	<u>200,967</u>	
Total Net Position	<u>\$ 200,967</u>	

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

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

	Private-Purpose Trust Fund
	<u> </u>
ADDITIONS	
Investment Earnings:	
Interest, Dividends, and Other	\$ <u> 902 </u>
DEDUCTIONS	
Other Expenses	<u> 3,600 </u>
Change in Net Position	(2,698)
Net Position - Beginning	<u> 203,665 </u>
Net Position - Ending	<u><u> \$ 200,967 </u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Lake 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 Lake County School District (District) is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules.

The governing body of the District is the Board, which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Lake County.

➤ **Component Units**

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.

As required by accounting principles generally accepted in the United States, these basic financial statements present the District (the primary government) and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District:

- **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 funds of the District. The Financing Corporation for the School Board of Lake County, Florida, Inc. (Financing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. The governing board of the Financing Corporation is the Lake County District School Board. Due to the substantive economic relationship between the District and the Financing Corporation, the financial activities of the Financing Corporation are included in the accompanying basic financial statements as part of the debt service and capital projects funds. Separate financial statements for the Financing Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the basic financial statements include the financial data of the District's other component units. A separate column is used to emphasize that they are legally separate from the District. These component units consist of the Educational Foundation of Lake County, Inc., as well as the following ten charter schools: Alee Academy, Inc.; Altoona School, Inc.; Imagine Schools at South Lake (dba South Lake Charter School); Humanities and Fine Arts Charter School,

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

Inc.; Lake Technical Center, Inc.; Mascotte Elementary School, Inc.; Milestones Community School of Lake County, Inc.; Minneola Elementary School, Inc.; Round Lake Elementary School, Inc.; and Spring Creek Elementary School, Inc. These are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the District.

The Educational Foundation of Lake County, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. The Foundation is considered to be a component unit of the District because the District must approve all members of the Foundation Board, and the District has the ability to impose its will on the Foundation. The financial data reported for the Foundation was derived from audited financial statements on file in the District's administrative offices.

The Charter Schools are separate not-for-profit corporations organized under Section 1002.33, Florida Statutes, to operate as public (as opposed to private) schools and are held responsible for prudent use of the public funds they receive. The Florida Department of Education has determined that Charter Schools are considered to be component units of the District because the District is financially accountable for the Charter Schools as the District established the Charter Schools by approval of the charter, which is tantamount to the initial appointment of the charter school to impose financial burdens on the District. In addition, pursuant to the Florida Constitution, the Charter Schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District. The financial data reported for the charter schools was derived from audited financial statements on file in the District's administrative offices.

➤ **Basis of Presentation – 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, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external customers for support.

Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The District does not have any major component units.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. 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. Revenues that are not

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

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 or business segment is self-financing or draws from the general revenues of the District.

The effects of interfund activity have been eliminated from the government-wide financial statements except for transfers between governmental activities and business-type activities. Interfund transactions include transactions involving the internal service funds. These transactions were eliminated by allocating the change in net position of the internal service fund in direct proportion to how they were charged as expenses to the various functions or programs.

➤ **Basis of Presentation – Fund Financial Statements**

The fund financial statements report detailed information about the District's funds, including the fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The focus of governmental fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental 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).
- Capital Projects – Other Capital Projects Fund - to account for the financial resources generated by various sources. Included in the Capital Projects – Other Capital Projects Fund are certificate of participation proceeds; impact fees; and effort index, class size reduction, and other capital outlay appropriations. These funds are to be used for educational capital outlay needs, including new construction and renovation and remodeling projects as specified in statute, ordinance, or contract.

The District reports the following proprietary funds:

- Enterprise Fund - Extended Learning Center Program - to account for the financial resources of the District's Extended Learning Center Program. This program provides before and after school care to students.
- Internal Service Funds - to account for the financial resources of the District's Self-funded Employee Health Insurance Program; Employee Flexible Spending Program; Self-Insured

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

Worker's Compensation, Automobile, and General Liability Programs (Other Self-Funded Insurance Programs); and printing services.

Additionally, the District reports the following fiduciary funds:

- 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.
- Private-Purpose Trust Fund – a private scholarship fund established to account for resources that are legally restricted by the donor to the extent that only proceeds from interest, and not principal, may be used for scholarship purposes. A complete description of this Donor-Restricted Endowment is included in Note 13.

➤ **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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. Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in

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

governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The Educational Foundation of Lake County, Inc., shown as a discretely presented component unit, follows the same accounting model as the District's governmental activities.

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

➤ **Governmental Accounting Standards Board Statement No. 65**

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the 2013-14 fiscal year. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items previously reported as assets and liabilities, respectively. This reporting change affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

Accounting changes to comply with this statement are presented as a restatement of beginning net position to eliminate the deferral of any prior issuance costs from the statement of net position for the current year and are presented as follows:

Net Position - July 1, 2013	\$ 442,425,968
Less: Prior period deferred issuance costs	<u>(2,123,134)</u>
Net Position - July 1, 2013, as restated	<u><u>\$ 440,302,834</u></u>

➤ **Future Adoption of New Accounting Standards**

GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 27 is effective for the District's fiscal year ending June 30, 2015. In addition to improving the disclosures regarding pension plans in the notes to the financial statements, GASB 68 will require the District to retroactively record the District's portion of the Florida Retirement System (FRS's) Net Pension Liability on the District's Statement of Net Position, which will have the effect of decreasing the District's Net Position. The District's portion of the Florida Retirement System (FRS's) Net Pension Liability is unknown, but is expected to be significant.

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

➤ **Assets, Liabilities, Deferred Outflows of Resources, and Net Position/Fund Balance**

- **Cash and Cash Equivalents**

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, and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash and cash equivalents as those accounts used as demand deposit accounts.

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

- **Investments**

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Fund B Surplus Funds Trust Fund (Fund B) investment pool created by Section 218.417, Florida Statutes, and those made locally.

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.

Investments made locally consist of money market mutual funds. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

- **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

- **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Warehouse (school supplies) and maintenance inventory are stated at cost on a weighted-average basis. Copy Center inventory is stated at last invoice, which approximates the first-in, first-out basis. Transportation and food service inventories are stated at cost on the first-in, first-out basis, except that United States Department of

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

Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

- **Capital Assets**

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

Normal maintenance and repair costs that do not materially increase the value of assets or extend the useful lives of assets are not capitalized.

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

Capital assets of the primary government, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	10 – 40 years
Buildings and Fixed Equipment	10 – 50 years
Furniture, Fixtures, and Equipment	3 – 15 years
Motor Vehicles	5 – 10 years
Property Under Capital Leases	3 – 50 years
Audio Visual Materials and Computer Software	3 – 10 years

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

- **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. Debt premiums and discounts, as well as issuance costs related to prepaid insurance premiums, are deferred and amortized over the life of the bonds using the effective interest method. Bonds and certificates of participation payable are reported net of the applicable premium or discount. Debt issuance costs related to prepaid insurance premiums are reported separately as deferred charges and amortized over the term of the related debt.

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

In the governmental fund financial statements, debt and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

- **Refunding of Debt**

- Under previous standards, such as GASB 23, in a transaction involving current refunding or advance refunding resulting in defeasance of debt, any difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized to interest expense over a period of time that is the shorter of the remaining life of the old debt or the life of the new debt. Under GASB 65, this difference, referred to as the deferred gain or loss on refunding, will be recognized as a deferred outflow of resources or a deferred inflow of resources and amortized to interest expense in a systematic and rational manner over the same period mentioned above.
- GASB 65 imposes similar accounting for leases. Any adjustment to the lease obligation resulting from a refunding by the lessor of tax-exempt debt should be reported as a deferred outflow of resources or a deferred inflow of resources and amortized to interest expense over the remaining life of the old debt or life of the new debt, whichever is shorter.

- **Debt Issuance Costs**

- With the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt; they should instead be recognized as an expense in the period incurred. These include, but are not limited to, legal costs, cost of printing, insurance costs and various fees such as rating agency fees, trustee fees and administrative fees. Prepaid insurance costs should be reported as an asset and amortized to expense in a systematic and rational manner over the life of the related debt.

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

- **Compensated Absences**

The criteria for determining compensated absences (e.g., paid absences for employee vacation and sick leave benefits) liability are derived from Board policy, negotiated agreements and state law. Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on sick leave accumulated at year-end by those employees who are eligible to receive termination payments and those employees for whom it is probable that they will become eligible to receive termination benefits in the future.

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

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 (e.g. unused reimbursable leave still outstanding following an employee's resignation or retirement). The liability for compensated absences includes applicable salary-related payments for Social Security, Medicare, and retirement contributions.

Changes in compensated absences for the current year are reported in a subsequent note.

- **Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the *deferred charge on refunding* reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- **Net Position Flow Assumption**

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

- **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.

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

- **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 resolution authorized the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The District has adopted Board Policy – 7.12 to require the set aside of 4 percent of recurring budgeted revenues at the beginning of each year to cover unforeseen events (e.g., revenue shortfalls, student enrollment under projections, etc.). At the end of the fiscal year, the unassigned general fund balance was \$12,022,308 or 4.3 percent of General Fund total revenues.

➤ **Revenues and Expenditures/Expenses**

- **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 or business segment is self-financing or draws from the general revenues of the District.

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

- **State Revenue Sources**

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

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

The State may allocate gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

- **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 Lake County Property Appraiser, and property taxes are collected by the Lake County Tax Collector.

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

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of

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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 Lake County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

- **Local Sales Tax**

On November 6, 2001, the voters of Lake County approved a one-cent discretionary infrastructure sales surtax on sales in the County for 15 years, effective January 1, 2003. This tax is split between Lake County, Lake County School District, and Lake County cities. The District uses this tax to pay for the construction of certain educational facilities and other related costs, in accordance with Section 212.055(6), Florida Statutes.

- **Educational Impact Fees**

Lake County imposes an educational impact fee based on an ordinance adopted by the County Commission in 1996. On December 11, 2007, Lake County amended Chapter 22 of the Lake County Code related to impact fees. Ordinance 2007-60 amended the County's Impact Fee Schedule. The educational impact fee is collected by the County for most new residential construction. The fees can only be used to acquire, construct, expand, and equip the educational sites and educational capital facilities necessitated by new development, and to pay for certain collection and legal defense costs. On April 5, 2011, the Lake County Board of County Commissioners voted to retroactively suspend collection of the school impact fee from January 1, 2011, through April 1, 2012. This suspension was subsequently extended through December 31, 2013. On October 8, 2013, the Lake County Board of County Commissioners voted to reinstate the impact fee at 25 percent of the prior rate effective January 13, 2014.

- **Federal Revenue Sources**

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

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• **Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for services related to employee health insurance premiums. Operating expenses include salaries and benefits, claims expense, and other costs of providing health insurance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. CASH DEPOSITS AND INVESTMENTS

All cash deposits are held in banks that qualify as public depositories under Florida law. All deposits are insured by federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

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

Investments	Maturities	S & P Rating	Fair Value
SBA:			
Fund B	2.86 Year Average	Unrated	\$ 27,701
Debt Service Accounts	6 Months	AAAm	219,337
Money Market Mutual Funds:			
First American Treasury Obligations	52 Days	AAAm	36,810,732
Total Investments, Primary Government			<u>\$ 37,057,770</u>

Section 218.415, Florida Statutes, limits the types of investments that a District can invest in unless specifically authorized by District policy.

➤ **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(6), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. District policies limit the length of investments of bond reserves, construction funds, and other nonoperating funds to a maximum of five years and the investment of current operating funds to no longer than two years.

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

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weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

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

- The Florida PRIME Investment Fund (SBA)
- United States Government securities
- United States Government agencies
- Federal instrumentalities
- Interest-bearing time deposit or savings accounts in qualified public depositories
- Repurchase agreements collateralized with a value of 102 percent, by negotiable direct obligations of the United States Government, governmental agencies, and Federal instrumentalities with maturities under five years
- Commercial paper and bankers' acceptances rated "Prime-1" by Moody's Investors Service and "A-1" by Standard & Poor's
- State and/or local government taxable and/or tax-exempt debt rated at least "Aa" by Moody's and "AA" by Standard & Poor's
- Registered investment companies (mutual funds) rated "AAM" or "AAM-G" or better by Standard & Poor's or an equivalent rating by another rating agency

Under the Board's investment policy, proceeds from debt issues are allowed to be invested in accordance with the resolutions authorizing the debt issue and approved by the bond insurer.

The District's investments in money market mutual funds totaling \$36,810,732 are reported at fair value. These funds were invested in First American Treasury Obligations Money Market Fund. The money market fund is rated Aaa by Moody's Investors Service and AAAM by Standard & Poor's.

The District's investments of \$27,701 in Fund B are unrated.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book-entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's \$36,810,732 of investments in money market funds are held by the safekeeping agent, in the name of the District.

➤ **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy has established asset allocation and issuer limits in the investment of available funds, i.e., cash and investment funds, which are designed to reduce the concentration of credit risk of the District's investment portfolio as follows:

- Florida PRIME Investment Fund (SBA) – 25%
- United States Government securities – 100%
- United States Government agencies – 50%
 - o 25% limit on individual issuers
- Federal instrumentalities – 80%
 - o 40% limit on individual issuers
- Interest-bearing time deposit or savings accounts – 25%
 - o 15% limit on individual issuers
- Repurchase agreements – 50%
 - o 25% limit on individual issuers
- Commercial paper – 35%
 - o 10% limit on individual issuers
- Registered investment companies (mutual funds) – 50%
 - o 25% limit on individual issuers
- Banker's acceptances - 35%
 - o 10% limit on individual issuers
- State and/or local government taxable or tax-exempt debt – 20%

Based on review of quarterly investment summary reports, the District complied with the concentration of credit risk provisions of the investment policy.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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➤ **Foreign Currency Risk**

The District's investment policy does not allow for investments in foreign currency; therefore, the District has no exposure to foreign currency risk.

3. RECEIVABLES

The majority of receivables are accounts receivable and due from other agencies. These receivables are considered to be fully collectible. As such, no allowance for uncollectible accounts receivable is accrued.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 19,508,735	\$ 8,404	\$ 62,196	\$ 19,454,943
Construction in Progress	7,369,622	5,631,203	6,402,502	6,598,323
Total Capital Assets Not Being Depreciated	26,878,357	5,639,607	6,464,698	26,053,266
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	16,766,581	35,617		16,802,198
Buildings and Fixed Equipment	750,291,216	9,228,432		759,519,648
Furniture, Fixtures, and Equipment	41,429,704	1,688,603	909,835	42,208,472
Motor Vehicles	32,030,460	108,902	379,760	31,759,602
Property Under Capital Leases	5,937,322			5,937,322
Audio Visual Materials and Computer Software	9,288,651	1,136,850		10,425,501
Total Capital Assets Being Depreciated	855,743,934	12,198,404	1,289,595	866,652,743
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	(16,147,775)			(16,147,775)
Buildings and Fixed Equipment	(123,671,465)	(15,005,824)		(138,677,289)
Furniture, Fixtures, and Equipment	(31,827,967)	(3,445,470)	(909,835)	(34,363,602)
Motor Vehicles	(24,034,331)	(1,941,155)	(379,760)	(25,595,726)
Property Under Capital Leases	(437,154)	(501,982)		(939,136)
Audio Visual Materials and Computer Software	(6,948,245)	(1,183,541)		(8,131,786)
Total Accumulated Depreciation	(203,066,937)	(22,077,972)	(1,289,595)	(223,855,314)
Total Capital Assets Being Depreciated, Net	652,676,997	(9,879,568)		642,797,429
Governmental Activities Capital Assets, Net	\$ 679,555,354	\$ (4,239,961)	\$ 6,464,698	\$ 668,850,695

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5. CAPITAL LEASE OBLIGATIONS

On October 14, 2011, the District entered into a Guaranteed Energy Savings Performance Contract under a Master Lease Agreement for the design, engineering and installation of various conservation measures, including facility alterations and equipment purchases designed to reduce energy or water consumption at various school locations. The project is funded through SunTrust Equipment Financing and Leasing in the amount of \$6,328,851 at an annual interest rate of 2.0784 percent. The Board's intent is to repay the loan and related interest through the guaranteed energy savings realized in nine annual installments of \$766,966 through September 14, 2020.

On August 27, 2012, the District entered into a Voice Over Internet Protocol (VOIP) and Infrastructure Upgrade Contract under a Master Lease Agreement for VOIP equipment purchase and infrastructure upgrade at various locations. The project is funded through Key Government Finance, Inc. in the amount of \$4,914,948 at an annual interest rate of 2.435 percent. The Board's intent is to repay the loan in five annual installments of \$982,990 through July 1, 2016.

Amounts payable for the Capital Leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,759,956	\$ 1,655,757	\$ 104,199
2016	1,759,956	1,669,739	90,217
2017	1,759,956	1,684,013	75,943
2018	776,966	715,593	61,373
2019	776,966	730,466	46,500
2020	1,553,933	1,506,796	47,137
Total Minimum Lease Payments	<u>\$ 8,387,733</u>	<u>\$ 7,962,364</u>	<u>\$ 425,369</u>

6. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on July 1, 1998, which was characterized as a lease-purchase agreement, with the Financing Corporation for the School Board of Lake County, Florida, Inc. (Financing Corporation), a blended component unit as described in note 1, whereby the District secured financing of various educational facilities in the total amount of \$337,005,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1998 for \$71,355,000; Series 2002 for \$65,155,000; Series 2003 for \$29,515,000; Series 2004A for \$29,025,000; Series 2005A for \$64,240,000; and Series 2006A for \$77,715,000, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given ground leases on District property to the Financing Corporation, with a rental fee of \$10 per year. The initial terms of the Series 1998 lease is 30 years commencing on July 1, 1998. The Series 2002, 2003, 2004A, 2005A, and 2006A leases each have an initial term of 25 years commencing on July 1, 2002, February 1, 2003, September 1, 2004, July 28, 2005, and December 1, 2006, respectively. The

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properties covered by the ground leases are, 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 sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up to 30 years from the date of the inception of the arrangement.

Certificates of participation payable at June 30, 2014, are as follows:

Certificates of Participation	Amount Issued	Amount Outstanding	Remaining Interest Rates (Percent)
Series 2005A	\$ 64,240,000	\$ 59,795,000	3.370 - 5.000
Series 2005B, Refunding	28,755,000	17,590,000	5.000 - 5.250
Series 2005C, Refunding	25,280,000	25,280,000	5.250
Series 2006A	77,715,000	64,900,000	3.700 - 5.000
Series 2006B, Refunding	34,855,000	27,350,000	5.000
Series 2012A, Refunding	23,065,000	13,990,000	4.000 - 5.000
Series 2012B, Refunding	20,655,000	19,590,000	3.000 - 5.000
Series 2013A, Refunding	20,875,000	20,875,000	3.000 - 5.000
Subtotal		249,370,000	
Plus Unamortized Premium		10,491,668	
Total Certificates of Participation		\$ 259,861,668	

Note: Certificates of Participation, Refunding Series 2005B were used to advance refund a portion of the Certificates of Participation, Series 1998. Certificates of Participation, Refunding Series 2005C were used to advance refund a portion of Certificates of Participation, Series 2002. Certificates of Participation, Series 2006B were used to advance refund a portion of the Certificates of Participation, Series 1998. Certificates of Participation, Series 2012A were used to advance refund a portion of the Certificates of Participation, Series 2002. Certificates of Participation, Series 2012B were used to advance refund a portion of the Certificates of Participation 2003. Certificates of Participation, Series 2013A were used to advance refund a portion of the Certificates of Participation Series 2004A.

The District Properties included in the ground leases under this arrangement include:

Series 1998 Certificates

Round Lake Elementary
Astatula Elementary
Lost Lake Elementary
Villages Elementary
Windy Hill Middle
Beverly Shores Elementary – Classroom Wing
Groveland Elementary – Classroom Wing
Tavares Elementary – Classroom Wing
Triangle Elementary – Classroom Wing
Eustis Middle – Classroom Wing
Tavares Middle – Classroom Wing

Series 2004A Certificates

Carver Middle
Mascotte Elementary
Lake Hills

Series 2005A Certificates

Mascotte Elementary
Minneola Elementary
Lake Hills
East Ridge High Addition

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Series 2002 Certificates

Pine Ridge Elementary
Leesburg High
Mount Dora High

Series 2006A Certificates

Sawgrass Bay Elementary
East Ridge Middle
South Lake High Addition
Gray Middle

Series 2003 Certificates

Beverly Shores Elementary
Fruitland Park Elementary
Mount Dora Middle
Leesburg Elementary
Oak Park Bus Lot Replacement

The following is a schedule by years of future minimum lease payments under the above-referenced lease agreements together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 26,310,900	\$ 14,525,000	\$ 11,785,900
2016	26,857,283	15,745,000	11,112,283
2017	27,413,359	17,035,000	10,378,359
2018	27,907,306	18,320,000	9,587,306
2019	19,300,419	10,590,000	8,710,419
2020-2024	96,432,744	60,470,000	35,962,744
2025-2029	96,457,119	76,210,000	20,247,119
2030-2031	39,206,125	36,475,000	2,731,125
Subtotal	359,885,255	249,370,000	110,515,255
Unamortized Premium	10,491,668	10,491,668	
Total Minimum Lease Payments	\$ 370,376,923	\$ 259,861,668	\$ 110,515,255

On March 10, 2014, the Board entered into a Forward Lock Rate Agreement which guarantees the advance refunding of \$13,970,000 of the Series 2005B Certificates of Participation at a future interest rate of 1.68 percent. The advance refunding will reduce total debt service payments in future years by \$734,487 and obtain an economic gain of \$695,867. The advance refunding is scheduled to close on or about March 3, 2015 and will be fully disclosed in the 2014-15 fiscal year.

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7. BONDS PAYABLE

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

Bond Type	Original Issue Amount	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:				
Series 2005A	\$ 2,375,000	\$ 115,000	4.000 - 5.000	2015
Series 2005A, Refunding	1,445,000	380,000	5.000	2016
Series 2005B	1,840,000	910,000	5.000	2020
Series 2006A	900,000	720,000	4.000 - 5.000	2026
Series 2008A	2,990,000	2,485,000	4.250 - 5.000	2028
Series 2009A	625,000	585,000	4.000 - 5.000	2029
Series 2009A, Refunding	485,000	265,000	5.000	2019
Series 2010A	335,000	315,000	3.500 - 5.000	2030
Series 2010A, Refunding	1,615,000	1,285,000	4.000 - 5.000	2022
Series 2011A, Refunding	765,000	610,000	3.000 - 5.000	2023
Series 2014A, Refunding	1,342,000	1,342,000	2.000 - 5.000	2025
Subtotal State School Bonds		9,012,000		
Sales Tax Revenue Bonds:				
Series 2004	15,590,000	6,595,000	4.125 - 5.000	2018
Total Bonds Payable		\$15,607,000		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

State School Bonds

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

Sales Tax Revenue Bonds - Series 2004

These bonds are authorized by the Constitution and Laws of the State of Florida, including, particularly Chapters 1000-1013, Florida Statutes, Chapter 212, Part I, Florida Statutes, and other applicable provisions of law. The bonds are secured by a pledge of the proceeds received pursuant to the Interlocal Agreement from the levy and collection by the Lake County Board of Commissioners of the one-cent local infrastructure sales surtax. Annual principal and interest on the bonds are expected to require approximately 60 percent of such revenues. Principal and interest paid for the current year was \$5,173,843. The District's portion of the one-cent local infrastructure sales surtax revenues totaled \$12,158,522 for the year.

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On February 10, 2014, the School Board approved the early repayment of the outstanding balance of the 2004 Sales Tax Bonds in October 2014. As of June 30, 2014, the outstanding principal balance totaled \$6,595,000 and the entire balance is reflected as due during the 2014-15 fiscal year. In addition, the balance of the interest due in October 2014 is \$158,531 and has been reported as Accrued Interest Payable on the Statement of Net Position.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2015	\$1,283,868	\$ 867,000	\$ 416,868
2016	1,306,880	925,000	381,880
2017	1,130,180	792,000	338,180
2018	1,153,038	853,000	300,038
2019	955,725	698,000	257,725
2020-2024	3,859,938	3,052,000	807,938
2025-2029	1,996,956	1,790,000	206,956
2030-2031	36,400	35,000	1,400
Total State School Bonds	<u>11,722,985</u>	<u>9,012,000</u>	<u>2,710,985</u>
Sales Tax Revenue Bonds:			
2015	6,753,531	6,595,000	158,531
Total Sales Tax Revenue Bonds	<u>6,753,531</u>	<u>6,595,000</u>	<u>158,531</u>
Total	<u>\$ 18,476,516</u>	<u>\$ 15,607,000</u>	<u>\$ 2,869,516</u>

8. NOTE PAYABLE

On May 3, 2012, the District entered into a note Payable of \$16,370,000 to refund a portion of the outstanding balance of the 2003 Sales Tax Bonds. The fixed interest rate is 1.22 percent for the balance related to the Note Payable. Principal and interest payments will continue to be made from the Sales Tax collections.

Amounts payable for the Note Payable are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 4,054,428	\$ 3,885,000	\$ 169,428
2016	4,051,756	3,930,000	121,756
2017	4,058,474	3,985,000	73,474
2018	4,054,583	4,030,000	24,583
Total	<u>\$ 16,219,241</u>	<u>\$ 15,830,000</u>	<u>\$ 389,241</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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9. 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					
Long-Term Debt:					
Note Payable	\$ 16,165,000	\$	\$ 335,000	\$ 15,830,000	\$ 3,885,000
Bonds Payable					
State School Bonds	10,010,000	1,342,000	2,340,000	9,012,000	867,000
Sales Tax Bonds	11,370,000		4,775,000	6,595,000	6,595,000
Unamortized Premium	88,845		88,845		
Total Bonds Payable	21,468,845	1,342,000	7,203,845	15,607,000	7,462,000
Certificates of Participation Payable	262,695,000		13,325,000	249,370,000	14,525,000
Unamortized Premium	11,515,060		1,023,392	10,491,668	
Total Certificates of Participation Payable	274,210,060		14,348,392	259,861,668	14,525,000
Obligations Under Capital Lease	9,604,422		1,642,058	7,962,364	1,655,757
Subtotal Long-Term Debt	321,448,327	1,342,000	23,529,295	299,261,032	27,527,757
Other Long-Term Liabilities:					
Other Postemployment Benefits Payable	9,097,008	1,815,626	1,075,635	9,836,999	
Compensated Absences Payable	19,020,072	1,420,737	1,653,801	18,787,008	1,400,000
Total Governmental Activities	\$ 349,565,407	\$ 4,578,363	\$ 26,258,731	\$ 327,885,039	\$ 28,927,757

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund. Other postemployment benefits payable represents an implicit subsidy under GASB 45 and will be included in future health and life insurance premiums charged to all funds that have personnel costs.

10. DEFEASED DEBT

In prior years, the Board defeased in substance certain other outstanding certificates of participation (COPs) by placing the proceeds of new COPs in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust assets and the liability for the in-substance defeased COPs have been removed from the government-wide financial statements.

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As of June 30, 2014, debt considered defeased in substance by the District is as follows:

<u>Bond Issues</u>	<u>Amount Outstanding</u>
Certificates of Participation, Series 2004	<u>\$ 20,720,000</u>
Total Defeased Debt	<u><u>\$ 20,720,000</u></u>

11. FUND BALANCE REPORTING

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

	<u>Major Funds</u>		<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects - Other</u>		
Fund Balances				
Nonspendable:				
Inventories:				
General Fund	\$ 1,680,003	\$	\$	\$ 1,680,003
Special Revenues -				
Food Service			467,011	467,011
Prepaid Items	31,406			31,406
Restricted:				
State Required Carryover	883,042			883,042
Special Revenues -				
Food Service			11,211,413	11,211,413
Debt Service			11,465,994	11,465,994
Capital Projects		46,216,447	12,315,781	58,532,228
Assigned:				
School Operations	954,547			954,547
Unassigned	<u>12,022,308</u>			<u>12,022,308</u>
Total Fund Balances	<u>\$ 15,571,306</u>	<u>\$ 46,216,447</u>	<u>\$ 35,460,199</u>	<u>\$ 97,247,952</u>

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

LAKE COUNTY
DISTRICT SCHOOL BOARD
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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.

12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 2,486,542	\$
Special Revenue:		
Federal Economic Stimulus		213,410
Nonmajor Governmental		2,273,132
Total	<u>\$ 2,486,542</u>	<u>\$ 2,486,542</u>

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within twelve months. In general, the General Fund advances funds to Federal and capital projects funds for funding sources that are received by the District as a reimbursement of expenditures.

**LAKE COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The following is a summary of interfund transfers reported in the fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 6,020,416	\$ 1,865,300
Capital Projects-Other Capital Projects		1,368,494
Nonmajor Governmental Funds	35,282,133	38,654,102
Subtotal	41,302,549	41,887,896
Proprietary Funds:		
Enterprise		511,307
Internal Service	1,096,654	
Total	\$ 42,399,203	\$ 42,399,203

The principal purposes of interfund transfers are the provision of funds for repayment of debt service principal and interest and the funding of certain maintenance costs.

13. DONOR-RESTRICTED ENDOWMENTS

During the 2003-04 fiscal year, the District became the administrator of the Lester J. Bodley Trust Fund (Trust) in the amount of \$200,000. The terms of the Trust require that the income of the Trust be divided equally between a graduating male and female student from Leesburg High School. These students, who in the sole judgment of the School Board, shall have made the most overall personal improvement during the four years of his or her high school career. The gifts from the Trust each year are to be given on a one-time basis. The Trust is reported as a Private-Purpose Trust Fund in the District's basic financial statements. Any earnings received on the Private-Purpose Trust Fund investments are earnings that are held in a fiduciary capacity and are not available for general appropriation.

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

14. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2013-2014 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 128,637,748
Categorical Educational Program - Class Size Reduction	44,288,694
Workforce Development Program	5,604,087
Voluntary PreKindergarten Program	1,478,305
Capital Outlay and Debt Service Withheld for SBE Bonds	1,303,260
Capital Outlay - Charter Schools	853,147
School Recognition	566,957
Discretionary Lottery Funds	394,148
Mobile Home License Tax	361,012
Food Service Supplement	256,534
Motor Vehicle License Tax (Capital Outlay and Debt Service)	165,148
Capital Outlay and Debt Service Withheld for Administrative Expenses	22,253
Interest on Undistributed Capital Outlay and Debt Service	57
Miscellaneous	634,367
Total	<u>\$ 184,565,717</u>

Accounting policies relating to certain State revenue sources are described in note 1.

15. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2013 Final Certified Taxable Value of Property in the County of \$16,530,656,144 for the 2013-2014 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.922	\$ 81,363,890
Basic Discretionary Local Effort	0.748	12,364,931
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	24,795,984
Total	<u>7.170</u>	<u>\$ 118,524,805</u>

**LAKE COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

16. STATE RETIREMENT PROGRAM

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

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service. There were 849 District participants in the Investment Plan during the 2013-14 fiscal year. Required contributions made to the Investment Plan totaled \$1,960,234.

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

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Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
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 years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$9,057,108, \$9,741,444, and \$12,476,690, respectively, which were equal to the required contributions for each fiscal year. Required employee contributions made to the program for the fiscal year ending June 30, 2014, totaled \$5,288,380.

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).

17. OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS

Plan Description.

The Other Postemployment Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's self-insured health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at 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 plan on average than those of

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

active employees. The Other Postemployment Benefits 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.

The District plans to fund this postemployment benefit on a pay-as-you-go basis. The plans as established by the Board, would require Board action to amend. For the 2013-14 fiscal year, 225 retirees received postemployment health care benefits. The District provided required contributions of \$1,075,635 toward the annual other postemployment benefits (OPEB) cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions, totaling \$1,687,986 which represents 1.1 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 1,094,271
Amortization of Unfunded Actuarial Accrued Liability	<u>736,517</u>
Annual Required Contribution	1,830,788
Interest on Net OPEB Obligation	363,880
Adjustment to Annual Required Contribution	<u>(379,042)</u>
Annual OPEB Cost (Expense)	1,815,626
Contribution Toward the OPEB Cost	<u>(1,075,635)</u>
Increase in Net OPEB Obligation	739,991
Net OPEB Obligation, Beginning of Year	<u>9,097,008</u>
Net OPEB Obligation, End of Year	<u><u>\$ 9,836,999</u></u>

**LAKE COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB plan, and the net OPEB obligation as of June 30, 2014, and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$2,992,110	47.34%	\$7,521,483
2012-13	2,992,110	47.34%	9,097,008
2013-14	1,815,626	59.24%	9,836,999

Funded Status and Funding Progress.

As of June 30, 2014, the actuarial accrued liability for benefits was \$17,333,163, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$17,333,163. The covered payroll (annual payroll of active participating employees) was \$159,035,412 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.9 percent.

Actuarial Method and Assumptions.

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.

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 January 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and to estimate the District's 2007-08 fiscal year annual required contribution. This method was selected because it produced the lowest OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested

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

assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a general inflation rate of 3 percent per year, a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent initially for the 2013-14 fiscal year, reduced to an ultimate rate of 5.58 beginning January 1, 2026. 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 24 years.

18. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Encumbrances:

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

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

Major Funds		Nonmajor Governmental Funds	Total Governmental Funds
General	Capital Projects - Other		
<u>\$ 954,547</u>	<u>\$ 7,840,091</u>	<u>\$ 6,211,676</u>	<u>\$ 15,006,314</u>

Construction Contracts:

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

Project	Contract Amount	Completed to Date	Balance Committed
Eustis Heights Elementary Renovations:			
Architect	\$ 998,251	\$ 904,021	\$ 94,230
Contractor	13,419,150	4,810,422	8,608,728
Cypress Ridge Elementary Café Renovations:			
Architect	171,500	98,200	73,300
Total	<u>\$ 14,588,901</u>	<u>\$ 5,812,643</u>	<u>\$ 8,776,258</u>

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

Other Contracts:

Encumbrances include the following significant commitments not related to construction at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Enterprise Resource System:			
Business Suite	\$ 1,130,827	\$ 919,051	\$ 211,776
Student Suite	1,759,700	823,660	936,040
Total	<u>\$ 2,890,527</u>	<u>\$ 1,742,711</u>	<u>\$ 1,147,816</u>

19. 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 District limited its exposure to these risks through its membership in the Florida Municipal Insurance Trust (Trust) until October 1, 2013, at which time they moved to a self-insured retention program. The Trust provides coverage for public entities within the State of Florida. The Trust is organized to meet and fulfill a member's obligations and liabilities under the Florida Workers' Compensation Act, and to write certain other lines of coverage including property protection, money and securities, employee fidelity and faithful performance, boiler and machinery, and general and auto liability to participating members. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program.

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

As of October 1, 2013, workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with two insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

On July 1, 2004, the District entered into a participation agreement with five school districts to purchase property insurance coverage through the Preferred Government Insurance Trust (PGIT). Under this agreement, the District shares \$175,000,000 of coverage on a per occurrence basis with a \$25,000 deductible for all other perils excluding wind damage from a named storm. The deductible for a named storm is three percent of the Total Insured Value, per location, subject to a minimum of \$35,000 deductible per occurrence.

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

Life insurance coverage is being provided through purchased commercial insurance.

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

The District provides health and hospitalization under a self-funded program administered through a commercial provider. By utilizing a self-funded model, the District assumes the claims risk directly and uses a purchased stop-loss policy to mitigate those risks. The stop-loss policy covers any individual claim over \$300,000, with an aggregate stop-loss of \$2,000,000. The District had had only 12 claims in excess of the \$250,000 amount in the prior two years, and seven claims in excess of the \$300,000. The stop-loss covers the claims directly and does not require the District to pay the claim and then be reimbursed.

Additionally, the District has entered into a contract with CareHere, LLC, to operate three health and wellness centers. Employees who have District health insurance may see a doctor free of charge and may receive stocked generic medicines free of charge.

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

<u>Fiscal Year</u>	<u>Beginning-of- Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2012-13	\$ 2,740,831	\$ 27,785,021	\$ (28,353,530)	\$ 2,172,322
2013-14	2,172,322	32,415,522	(29,027,780)	5,560,064

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

20. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2013-14 fiscal year:

	Total	Self-Funded Employee Health Insurance	Employee Flexible Spending Program	Other Self-Funded Insurance Programs	Printing Services
Total Assets	\$ 6,962,473	\$ 6,105,783	\$ 97,095	\$ 728,522	\$ 31,073
Liabilities and Net Position:					
Accounts Payable	\$ 263,925	\$ 162,026	\$	\$ 70,826	\$ 31,073
Unearned Revenue	127,124	127,124			
Estimated Insurance Claims Payable	5,560,064	5,560,064			
Net Position:					
Unrestricted Net Position	1,011,360	256,569	97,095	657,696	
Total Liabilities and Net Position	\$ 6,962,473	\$ 6,105,783	\$ 97,095	\$ 728,522	\$ 31,073
Revenues:					
Charges for Services	\$ 35,711,849	\$ 33,436,201	\$ 192,529	\$ 1,749,221	\$ 333,898
Interest Income	511	504		7	
Total Revenues	35,712,360	33,436,705	192,529	1,749,228	333,898
Total Expenses	(37,540,118)	(35,844,187)	(173,847)	(1,091,532)	(430,552)
Transfers In	1,096,654	1,000,000			96,654
Change in Net Position	\$ (731,104)	\$ (1,407,482)	\$ 18,682	\$ 657,696	\$ 0

21. LITIGATION AND CONTINGENCIES

The District is subject to potential litigation in the normal course of business. It is the opinion of management, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations on governmental liability on uninsured risks, that the amount of losses resulting from litigation, which exceed the above-mentioned limits, would not be material to the financial position of the District.

Amounts received or receivable from grantors are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by grantors, cannot be determined at this time. In the

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

opinion of the management of the District, no material refunds will be required as a result of expenditures disallowed by grantors.

22. SUBSEQUENT EVENTS

On February 19, 2015, the Board issued \$56,270,000 in Series 2015B Certificates of Participation (COPs) to provide funds for refunding the outstanding Series 2006A COPs. The Series 2015B COPs mature in 2031.

On March 3, 2015, the Board issued \$13,970,000 in Series 2015A COPs to provide funds for refunding the outstanding Series 2005B COPs. The Series 2015A COPs mature in 2018. This refunding involved a Forward Lock Rate Agreement which is discussed in more detail in the Certificates of Participation note disclosure.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**LAKE 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 Direct				
ROTC	\$ 330,000	\$ 331,036	\$ 331,036	\$
Federal Through State and Local				
American Recovery & Reinvestment Act (ARRA)				
Race to the Top				
School Improvement				
Medicaid	750,000	792,878	792,878	
National Forest Funds	82,500	85,273	85,273	
Miscellaneous Federal Through State Funds	600,000	750,300	750,300	
State				
Florida Educational Finance Program	127,950,754	128,637,748	128,637,748	
Categorical Educational Programs	47,093,927	46,728,004	46,728,004	
Workforce Development Program	5,309,722	5,604,076	5,604,076	
Miscellaneous State Funds	585,882	711,859	711,859	
Local:				
District School Tax	89,717,731	90,501,854	90,899,334	397,480
Investment Income	25,000	4,317	4,317	
Impact Fees				
Miscellaneous Local Funds	4,920,000	4,169,324	4,961,371	792,047
Total Revenues	277,365,516	278,316,669	279,506,196	1,189,527
Expenditures				
Current - Education:				
Instruction				
Salaries	102,210,403	103,320,179	103,320,179	
Employee Benefits	27,071,192	28,305,209	28,305,209	
Purchased Services	40,852,042	41,814,162	41,814,162	
Energy Services	1,800	1,046	1,046	
Materials and Supplies	7,768,494	4,273,068	4,273,068	
Capital Outlay	88,864	372,890	372,890	
Other Expenditures	3,599,772	2,984,793	2,984,793	
Student Personnel Services				
Salaries	9,119,331	9,297,410	9,297,410	
Employee Benefits	2,773,938	2,727,693	2,727,693	
Purchased Services	653,145	1,337,474	1,337,474	
Materials and Supplies	69,057	102,807	102,807	
Capital Outlay	44,984	56,901	56,901	
Other Expenditures	6,217	53,089	53,089	
Instructional Media Services				
Salaries	2,126,428	2,192,221	2,192,221	
Employee Benefits	599,566	603,273	603,273	
Purchased Services	69,028	99,337	99,337	
Materials and Supplies	27,335	40,871	40,871	
Capital Outlay	288,060	287,811	287,811	
Other Expenditures	31,210	40,700	40,700	
Instruction and Curriculum Development Services				
Salaries	2,360,859	2,503,123	2,503,123	
Employee Benefits	669,687	680,214	680,214	
Purchased Services	1,500,861	71,439	71,439	
Energy Services	1,650	1,219	1,219	
Materials and Supplies	40,221	37,963	37,963	
Capital Outlay	2,577	4,974	4,974	
Other Expenditures	2,689	10,384	10,384	
Instructional Staff Training Services				
Salaries	1,916,802	1,815,793	1,815,793	
Employee Benefits	446,142	450,767	450,767	
Purchased Services	211,103	229,806	229,806	
Energy Services				
Materials and Supplies	87,242	73,947	73,947	
Capital Outlay	40,008	11,385	11,385	
Other Expenditures	123,940	86,629	86,629	
Instruction Related Technology				
Salaries	1,646,940	1,279,622	1,279,622	
Employee Benefits	453,711	302,182	302,182	
Purchased Services	454,015	390,035	390,035	
Materials and Supplies		11,079	11,079	
Capital Outlay	30,317	3,396	3,396	
Other Expenditures	12,000	300	300	
School Board				
Salaries	274,081	264,874	264,874	
Employee Benefits	108,786	111,344	111,344	
Purchased Services	476,622	430,489	430,489	
Materials and Supplies	1,700	1,624	1,624	
Other Expenditures	21,752	22,152	22,152	
General Administration				
Salaries	568,380	595,918	595,918	
Employee Benefits	166,770	160,287	160,287	
Purchased Services	33,892	48,085	48,085	
Energy Services	600	472	472	
Materials and Supplies	6,330	7,476	7,476	
Capital Outlay	500	403	403	
Other Expenditures	25,607	21,403	21,403	

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
School Administration				
Salaries	\$ 12,645,600	\$ 12,750,740	\$ 12,750,740	\$
Employee Benefits	3,609,988	3,571,324	3,571,324	
Purchased Services	85,859	174,753	174,753	
Energy Services		78	78	
Materials and Supplies	11,098	89,877	89,877	
Capital Outlay	30,202	91,889	91,889	
Other Expenditures	40,000	55,618	55,618	
Facilities Acquisition and Construction				
Salaries	433,402	350,515	350,515	
Employee Benefits	134,252	114,613	114,613	
Purchased Services	2,448	12,299	12,299	
Materials and Supplies	1,250	863	863	
Capital Outlay		55,262	55,262	
Other Expenditures	400	85	85	
Fiscal Services				
Salaries	1,171,352	1,207,365	1,207,365	
Employee Benefits	318,543	306,639	306,639	
Purchased Services	225,454	140,048	140,048	
Materials and Supplies	22,500	14,910	14,910	
Capital Outlay	400	1,278	1,278	
Other Expenditures	30,061	23,574	23,574	
Central Services				
Salaries	3,097,372	3,430,972	3,430,972	
Employee Benefits	832,284	1,076,183	1,076,183	
Purchased Services	1,122,292	853,354	853,354	
Energy Services	47,425	22,963	22,963	
Materials and Supplies	134,187	198,238	198,238	
Capital Outlay	319,035	10,593	10,593	
Other Expenditures	64,800	59,424	59,424	
Student Transportation Services				
Salaries	6,808,469	7,157,972	7,157,972	
Employee Benefits	2,655,303	2,945,515	2,945,515	
Purchased Services	1,166,714	1,193,567	1,193,567	
Energy Services	3,240,000	3,109,669	3,109,669	
Materials and Supplies	1,166,262	1,048,631	1,048,631	
Capital Outlay	23,500	5,675	5,675	
Other Expenditures	610,629	440,143	440,143	
Operation of Plant				
Salaries	6,497,724	6,815,585	6,815,585	
Employee Benefits	2,908,857	2,837,926	2,837,926	
Purchased Services	5,594,013	6,112,095	6,112,095	
Energy Services	6,559,688	7,535,321	7,535,321	
Materials and Supplies	21,270	711,534	711,534	
Capital Outlay	6,289	19,784	19,784	
Other Expenditures	162,900	117,494	117,494	
Maintenance of Plant				
Salaries	4,229,297	4,212,233	4,212,233	
Employee Benefits	1,398,840	1,460,049	1,460,049	
Purchased Services	1,117,405	604,321	604,321	
Energy Services	160,000	224,325	224,325	
Materials and Supplies	226,228	279,211	279,211	
Capital Outlay	90,413	38,144	38,144	
Other Expenditures	400	11,256	11,256	
Administrative Technology Services				
Salaries	510,895	1,054,965	1,054,965	
Employee Benefits	134,745	287,805	287,805	
Purchased Services	671,668	858,662	858,662	
Materials and Supplies	66,678	83,816	83,816	
Capital Outlay	1,091,041	459,921	459,921	
Other Expenditures	400	605	605	
Community Services				
Salaries	45,000	47,076	47,076	
Employee Benefits	12,799	13,107	13,107	
Purchased Services	7,100	9,988	9,988	
Materials and Supplies		39	39	
Other Expenditures		600	600	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		3,261	3,261	
Other Capital Outlay		772,390	772,390	
Total Expenditures	280,651,381	282,625,860	282,625,860	
Excess (Deficiency) of Revenues Over Expenditures	(3,285,865)	(4,309,191)	(3,119,664)	1,189,527
Other Financing Sources (Uses)				
Transfers In	1,000,000	6,020,416	6,020,416	
Transfers Out	(776,966)	(1,865,300)	(1,865,300)	
Total Other Financing Sources (Uses)	223,034	4,155,116	4,155,116	
Net Change in Fund Balances	(3,062,831)	(154,075)	1,035,452	1,189,527
Fund Balances, Beginning	14,235,854	14,535,854	14,535,854	
Fund Balances, Ending	\$ 11,173,023	\$ 14,381,779	\$ 15,571,306	\$ 1,189,527

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
	34,559	34,559	
635,376	258,240	258,240	
179,554	52,867	52,867	
310,670	289,483	289,483	
12,613	5,612	5,612	
14,476			
302,837	126,609	126,609	
164,848	94,975	94,975	
1,846,438	1,120,142	1,120,142	
\$ 0	\$ 0	\$ 0	\$ 0

**LAKE 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	\$ 30,749,335	\$ 30,749,335	0.0%	\$ 147,423,032	20.9%
January 1, 2011	0	28,747,961	28,747,961	0.0%	160,163,006	17.9%
January 1, 2014	0	17,333,163	17,333,163	0.0%	159,035,412	10.9%

Note: (1) The entry-age normal cost actuarial method was used to calculate the actuarial accrued liability.

**LAKE 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 State Board of Education 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.
- During the fiscal year ended June 30, 2014, budgets for all governmental fund types were amended to reflect adjustments to appropriations due to changes in student counts, the addition of new education programs, etc. These amendments were made as part of the routine budget process of the District, and were not deemed to be significant by management.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2014, unfunded actuarial accrued liability of \$17,333,163 was significantly lower than the January 1, 2011, liability of \$28,747,961 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- Initial Cost of Coverage and Premiums: The total cost of coverage for retirees increased from \$433 per member per month (as expected for year beginning January 1, 2011) to \$450 per member per month for the year beginning January 1, 2014. This is lower than the \$553 per member per month previously projected for this year. This change had a decreasing effect on the costs and liability.
- Population Changes: The number of retirees currently receiving post-employment health benefits decreased from 254 in the previous valuation to 225 in the current valuation. This population change had a decreasing impact on the cost and liability resulting from this valuation. At the same time, the number of active employees eligible for future post-employment benefits decreased from 4,537 to 4,354. This population change had a decreasing impact on the costs and liabilities resulting from this valuation.
- Medicare Enrollment Assumption: This year's valuation suggests an increase in the number of eligible retirees electing to enroll into Medicare Part B upon attaining Medicare age. This valuation revised the assumed proportion of eligible retirees expected to have Medicare as a primary coverage provider to 80 percent (from 40 percent in the previous valuation). This resulted in a dramatic decrease in the expected plan cost for post age 65 coverage and, as such, had a significant decreasing effect on the costs and liabilities.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LAKE 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	\$ 2,893,154	\$
National School Lunch Program	10.555 (2)	323, 13001, 13003	12,001,481	
Total Child Nutrition Cluster			14,894,635	
Florida Department of Education:				
Child and Adult Care Food Program	10.558	302	284,826	
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	85,273	
Total United States Department of Agriculture			15,264,734	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	9,357,149	
Special Education - Preschool Grants	84.173	267	168,406	
Total Special Education Cluster			9,525,555	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	5,093	
ARRA - School Improvement Grants, Recovery Act	84.388	126	31,331	
Total School Improvement Grants Cluster			36,424	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	503,549	503,549
Title I Grants to Local Educational Agencies	84.010	212, 223	8,813,294	
Migrant Education - State Grant Program	84.011	217	88,336	
Career and Technical Education - Basic Grants to States	84.048	161	468,903	92,042
Education for Homeless Children and Youth	84.196	127	116,316	
English Language Acquisition Grants	84.365	102	226,889	
Improving Teacher Quality State Grants	84.367	224	1,380,504	
ARRA - State Fiscal Stabilization Fund (SFSF)				
Race-to-the-Top Incentive Grants, Recovery Act	84.395	RG411, RL111	1,201,118	
Total United States Department of Education			22,360,888	595,591
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	331,036	
Total Expenditures of Federal Awards			\$ 37,956,658	\$ 595,591

- 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 \$1,405,491 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
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lake 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 aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

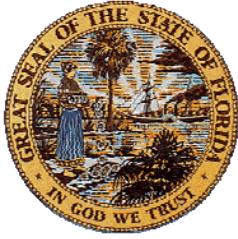
Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 23, 2015



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for the Major Federal Program

We have audited the Lake County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the fiscal year ended June 30, 2014. The District's major Federal program is 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 the District's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 23, 2015

**LAKE 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 program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major program:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553 and 10.555	Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,138,699
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Monthly Financial Reports

State Board of Education (SBE) Rule 6A-1.008, Florida Administrative Code (FAC), requires that monthly financial statements (reports) be prepared and submitted to the Board. However, from July 2013 to April 2014, District personnel did not provide monthly financial reports to the Board because, according to District personnel, the District transitioned from its previous accounting software to another software program and time was unavailable to prepare the monthly financial reports. At the May 12, 2014, Board meeting, the District presented budget to actual revenue and expenditure comparisons for the nine-month period ending March 31, 2014. Although District personnel indicated that they informed the Board that monthly financial reports would not be presented during the software transition period and the District monitored financial information manually, District records did not evidence that the Board was timely informed of the District's financial status. Further, the District did not present monthly financial reports to the Board for the periods April through June 2014, and the July through September 2014 monthly financial reports were presented to the Board on November 10, 2014, and monthly financial reports for October and November 2014 were presented on January 26, 2015.

Timely monthly financial reports that provide practical and understandable summary financial information, such as total revenues and expenditures by fund, projected and revised student enrollment counts and the effects of such revisions, and current anticipated ending fund balance amounts, would allow the Board to monitor the District's financial condition and provide information for financial decision-making.

Recommendation: The District should enhance its procedures to ensure that monthly financial reports that include financial information sufficient for monitoring the District's overall financial condition are provided to the Board.

Finding No. 2: Audits - School Internal Funds

School internal funds provide an accounting for various school club and class activities. SBE Rule 6A-1.087, FAC, requires an annual audit of the school internal funds by a certified public accountant (CPA) or qualified internal auditing staff employed by the Board. The rule provides that the "auditor shall submit a signed, written report to the school board covering internal funds which shall include any notations of any failure to comply with requirements of Florida Statutes, state board of education regulations and policies of the school board, and commentary as to financial management and irregularities." Pursuant to Section 218.39, Florida Statutes, the District must provide for an audit of its financial statements, to be completed within 9 months after fiscal year-end. The school internal funds are an integral part of the District's financial reporting entity and the school internal funds audits, if timely completed, can be considered in completing the audit of the District's financial statements.

Contrary to SBE Rule 6A-1.087, FAC, District records did not evidence that audits of the school internal funds were performed for the 2011-12, 2012-13, or 2013-14 fiscal years. In response to our inquiry, District personnel indicated that they believed the school internal funds audit requirement was satisfied by virtue of the school internal funds being considered as part of the audit of the District's comprehensive annual financial report performed by a CPA firm for those fiscal years. However, the rule clearly contemplates the completion of an audit, and issuance of an audit report, the scope of which focuses on school internal funds.

District personnel also indicated that a senior accounting specialist performed operational reviews of the school internal funds for the 2011-12, 2012-13, and 2013-14 fiscal years. However, such reviews did not constitute audits as contemplated by the rule as they were not performed by a CPA or an individual employed by the Board as qualified internal audit staff.

Completion of school internal funds audits as required by SBE Rule 6A-1.087, FAC, and submittal of school internal funds audit reports to the Board, would provide the Board a means for evaluating the adequacy of internal controls over school internal funds and the extent to which school internal funds were being administered in accordance with applicable laws, rules, and Board policies.

Recommendation: The District should ensure that school internal funds audits are performed, and school internal funds audit reports are submitted to the Board, as required by SBE Rule 6A-1.087, FAC.

Finding No. 3: Transportation Inventory

At June 30, 2014, the District reported transportation inventory of \$330,134, which consisted primarily of parts used to maintain and repair vehicles. The District maintained transportation inventories at five locations that were managed by a parts manager who was assisted by a parts clerk. However, controls over these inventories needed improvement as follows:

- An inappropriate separation of duties existed as the parts manager and parts clerk each had inventory purchasing, receiving, and issuance duties, and unrestricted access to the physical inventories. Also, each employee was custodian of the inventories and performed annual physical inventory counts without an independent review of the counts, and the parts manager adjusted final inventory records based on the results of the counts.
- While the District maintains the inventories in facilities that are locked overnight, some inventory parts kept in the mechanics' work area remain unsecured during the work day.

Without appropriately separating duties and limiting access to transportation inventory, there is an increased risk of theft or inappropriate use of inventories without timely detection.

Recommendation: The District should enhance procedures to ensure appropriate separation of duties for transportation inventories to the extent practical with existing personnel or implement adequate compensating controls, and ensure inventories are appropriately secured.

Finding No. 4: Health Insurance Plan – Participant Eligibility

The District's self-funded insurance program provides health and prescription coverage for eligible participants including employees, retired former employees, and eligible dependents. Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a third party administrator (TPA) to administer its health and prescription coverage plan and process, investigate, and pay claims. During the 2013-14 fiscal year, the District reported health

insurance program expenses totaling \$35.8 million, including claims expenses of \$29 million, premium expenses of \$1 million, and other expenses totaling \$5.8 million.

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to monthly contribute 95 percent of the cost of individual basic coverage for full-time employees. Pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and depositing these funds into a separate account. Employees may enroll in the District's health insurance plan upon employment and during open enrollment periods, and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. During the 2013-14 fiscal year, 4,379 employees contributed a total of approximately \$5 million and 259 retired former employees contributed a total of approximately \$1.9 million to participate in the District's health insurance plan, and the District contributed \$25.9 million toward the plan. Also, 791 dependents participated in the health insurance plan.

District personnel indicated that they perform a review of claim billings and periodically confirm participant eligibility; however, 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. District personnel indicated that they historically relied on the TPA to annually verify dependent eligibility; however, they did not realize that the eligibility determinations were discontinued. 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 establish procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 5: Group Health Self-Insurance Plan

As noted in Finding No. 4, the District established a group self-insurance plan for employees, retirees, and dependents pursuant to Section 112.08, Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit to the Florida Department of Financial Services, Office of Insurance Regulation (OIR), a report that includes a statement prepared by an actuary of the plan's actuarial soundness within 90 days after the close of the plan fiscal year. However, the District did not file the required reports with OIR for the plan years ended June 30, 2012, 2013, or 2014. Without filing annual reports, the District may limit OIR's ability to properly monitor the District's plan.

The District reported a net position of \$1,664,051 for the plan year ended June 30, 2013, which represented approximately 20 days of outstanding claims. For the plan year ended June 30, 2014, the District's net position declined to \$256,569 (\$1,407,482 less than the balance at June 30, 2013), which represented less than 3 days of outstanding claims. The June 30, 2014, net position includes a \$1,000,000 transfer from the General Fund, without which the plan would have reported a deficit balance at June 30, 2014. Given the plan's recent decline in net position, filing required annual reports with OIR becomes more critical to enable the Board and the OIR to effectively monitor the actuarial soundness of the plan and help ensure the District's ability to meet its self-insurance obligations in the

future. Continued deficits in the health self-insurance plan may require other resources to fund the plan and increase the risk that the District may not meet its self-insurance obligations.

Recommendation: The Board should establish policies identifying a target net position balance or funding level for the health self-insurance plan and continue to take necessary actions to ensure adequate funding of the plan. In addition, the District should ensure that the required reports are submitted to OIR and are supported by actuarially-determined projections.

Finding No. 6: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that on or after July 1, 2011, a unit of government that enters into an employment agreement, or renewal or renegotiation of an existing employment agreement, that contains a provision for severance pay must include a provision in the employment agreement that precludes severance pay from exceeding 20 weeks of compensation.

On October 24, 2011, the Board approved a third amendment to the original employment agreement with the Superintendent dated July, 14, 2008, which extended the employment term expiration from June 30, 2012, to June 30, 2015. The revised employment agreement provided that if the Superintendent's employment was terminated without cause, the Board would pay the Superintendent her current monthly salary for 12 consecutive months from the effective date of termination or for the period to the expiration of the term, whichever was shorter. This provision did not appear to be consistent with Section 215.425(4)(a), Florida Statutes, as it allowed for severance pay that may exceed 20 weeks of salary.

Subsequent to our inquiry, the Board approved an amended Superintendent's agreement on December 16, 2014, effective July 1, 2015 through June 30, 2017. This agreement, once it becomes effective on July 1, 2015, will limit severance pay to the Superintendent for termination without cause to a maximum of 20 weeks.

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

Finding No. 7: Payroll Processing Procedures

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. During the 2013-14 fiscal year, the District reported General Fund salary costs of approximately \$55 million for noninstructional contracted personnel, such as administrative, secretarial, and other support employees. The District paid noninstructional contracted personnel on a payroll by exception basis in which employees receive their regular pay each period unless they use more leave than accumulated, resulting in a reduction to their salary.

For noninstructional contracted personnel, reports are distributed to supervisors to certify employees' leave used and the reports are returned to the Payroll Department for consideration in processing related salary costs. District personnel indicated that each department maintained sign-in/sign-out calendars or logs to evidence noninstructional contracted personnel work time; however, department supervisors did not always evidence review and approval of the calendars or logs and did not submit these records to the Payroll Department to support salary costs.

Although our audit tests did not disclose any instances of incorrect salary payments, when work attendance is not timely verified of record, the risk increases that employees may be incorrectly compensated and employee leave balances may be inaccurate. Similar findings were noted in our report Nos. 2009-067 and 2012-077.

Recommendation: **The District should enhance procedures to ensure documented supervisory review and approval of noninstructional contracted personnel work time.**

Finding No. 8: Construction Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP) that allows for the difference between certain costs of the project and the GMP amount, or the net cost savings, to be returned to the District. To appropriately monitor CME activities and ensure net cost savings are achieved for construction projects, it is important for the District to closely monitor construction costs and review documentation in support of pay requests.

In October 2013, the District approved a GMP contract totaling \$13,419,150 with a CME for the construction of Eustis Heights Elementary School (EHES). Our review of District records supporting CME activities and related payments for the EHES project disclosed the following:

- Pursuant to Section 255.05(1)(g), Florida Statutes, the CME, before commencing work, was required to furnish a payment and performance bond to the District in an amount equal to the contract price to be executed and recorded. The CME payment and performance bond was issued for \$12,640,172 or \$778,978 less than the contract amount. Subsequent to our inquiry, the District corrected the error and increased the bond to the contract amount. Sufficient bond amounts provide assurance that suppliers, subcontractors, and laborers will satisfactorily perform their duties and be paid should the CME default on its obligation.
- Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. District personnel did not verify the licenses of the project subcontractors used for the EHES project but relied on the CME to confirm those licenses. District records indicated that the CME used five subcontractors on the project, and our review of three subcontractors' licenses disclosed that one subcontractor was not licensed. Subsequent to our inquiry, District personnel obtained documentation indicating that another company acted as the qualifying agent for this subcontractor while the subcontractor attempted to obtain the required license. Verification of subcontractors' licenses provides the District additional assurance that subcontractors are qualified to perform the work for which they are engaged.
- District personnel indicated that they attended subcontractor bid openings conducted by the CME and the CME maintained subcontractor bids and related contracts. However, District records did not evidence attendance by District personnel to confirm the CME's competitive selection of subcontractors or reconciliations of subcontractor bids and related contracts to District CME payments. Although our review of CME records disclosed subcontractors were selected through a competitive process and CME payments to subcontractors appropriately reconciled to subcontractor bids and related contracts, our procedures cannot substitute for the District's responsibility to implement appropriate internal controls over construction activities.

Recommendation: The District should enhance its procedures to ensure that payment and performance bonds are issued for contract amounts, subcontractors are appropriately licensed, District personnel document attendance at bid openings, and that CME payments appropriately reconcile to subcontractor bids and related contracts.

Finding No. 9: Enterprise Resource Planning Software

Pursuant to SBE Rule 6A-1.012(14), FAC, the District may acquire information technology systems, such as enterprise resource planning (ERP) software, through the competitive solicitation process or by direct negotiation and contract with a provider as best fit the District's needs determined by the Board. Good business practice dictates that selection and purchase of ERP software, such as for finance, human resources, payroll, and other software, include documented considerations of the software costs in relation to the benefits of the software to specific user needs. Effective procurement procedures serve to increase public confidence in the procurement process.

District personnel indicated that the District formed a software committee to ensure the needs of the District are met and a technology advisory committee to review and consider the reasonableness of all large technology initiatives. To determine whether software used for finance, human resources, payroll, and other software and related services at other school districts may be appropriate for District use, District personnel also indicated that several school districts were surveyed by telephone and employees from the Information Technology Department also visited one of the school districts to determine the ERP software used, ease of conversion, how well the school district liked the software, and ongoing support. On October 22, 2012, the Board approved and signed an agreement with an ERP software provider for finance, human resources, payroll, and other software and related services. The itemized costs included a total one-time cost of \$2,460,368, including \$693,310 of service fees, and an annual license fee of \$430,159.

According to District personnel, the ERP software contract provisions were based on a contract that had been competitively negotiated by another school district, which was compatible to the District, and would enable the District to contact the other school district should questions or problems arise. While District records indicated that the two contracts had similar payment and deliverable schedules, the District's contract and related costs included teacher/student software for \$1,158,475, a related service fee of \$324,745, and related annual license and maintenance fees of \$276,480 that were not included in the other school district's contract. As the District's contract did not contain the same provisions as the other school district's contract, the usefulness of the District relying on the other school district's competitive solicitation process was somewhat negated.

Given the complexities and costs of ERP systems, utilizing independently developed cost estimates for the desired system components and functionalities would have provided more complete evidence upon which to negotiate for this procurement.

Recommendation: The District should enhance its procedures to ensure, for future ERP software purchases, that District records clearly demonstrate that such purchases are made at the lowest price consistent with desired quality.

Finding No. 10: Auditor Selection and Contract

For the 2012-13 fiscal year, the District was required to provide for an annual financial audit by a certified public accountant (CPA) pursuant to Section 218.39, Florida Statutes. Such audits give assurance to the reliability and completeness of financial statements, consider internal control over financial reporting, and provide test results of

compliance with certain provisions of laws, rules, and regulations, noncompliance with which could have a direct and material effect on financial statement amounts. Consequently, it is important for entities to use an adequate auditor procurement process to ensure a quality audit.

The Board must select the financial auditor using the procedures prescribed in Section 218.391, Florida Statutes. Sections 218.391(2) and (3), Florida Statutes, require the Board to establish an audit committee to assist in the selection of an auditor and specify the responsibilities of the audit committee, which include publicly announcing the need for audit services and a competitive selection process. Also, Section 218.391(7), Florida Statutes, prescribes the required elements of the contract for audit services, including a provision that invoice billings be submitted in sufficient detail to demonstrate compliance with the contract.

The Board established an audit committee that decided in March 2011 to renew the District's current CPA firm audit contract; however, the contract expired in May 2011. In September 2011, the Board awarded a six-year contract to the same CPA firm based on a contract the CPA firm had entered into with another school district and, during the 2013-14 fiscal year, the District paid the CPA firm \$93,500 for the 2012-13 fiscal year financial audit. However, District records did not evidence that the District selected the CPA firm using the competitive selection process prescribed in Section 218.391, Florida Statutes, and the contract did not include a provision requiring sufficiently detailed invoice billings to demonstrate contract compliance, contrary to Section 218.391(7), Florida Statutes. Also, the CPA firm's invoice billings were not in sufficient detail to demonstrate compliance with the terms of the contract as the invoices did not identify the staff used on the audit, work time of staff, or staff billing rates.

Without following the competitive selection process, the District had limited assurance that the most qualified firm was selected in a fair, equitable, and economic manner. Also, absent appropriate contract provisions and sufficiently detailed invoice billings, District records did not evidence that amounts invoiced and paid were in accordance with the contract.

Recommendation: **The District should enhance procedures to ensure compliance with the auditor selection, contract, and invoice billing requirements prescribed in Section 218.391, Florida Statutes.**

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

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

During the 2013-14 fiscal year, there were 226 students enrolled full-time and 565 students enrolled part-time in the District's VIP. The District's *Curriculum Guide and Student Handbook* addresses VIP operations, including information regarding the advantages of the virtual environment, enrollment criteria, student contact and drop policy, and other guidance. Although this handbook provides guidance for VIP processes, the District did not have comprehensive, written VIP policies and procedures to document personnel responsibilities, provide consistent guidance to staff

during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations.

Comprehensive, written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in Finding Nos. 12 through 15. District personnel indicated that policies and procedures were being developed but, as of December 2014, were in draft form and had not yet been submitted to the Board for approval.

Recommendation: The District should continue the process of developing and maintaining comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

Finding No. 12: Virtual Instruction Program - Options

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

The District provided only two options for grades kindergarten through 12. District personnel indicated that they thought they had offered the required number of options; however, the District had mistakenly counted part-time and full-time options with the same provider as separate options for grades kindergarten through 5. For grades 6 through 12, the District included course offerings that are not considered a viable option because the additional courses did not constitute District VIP courses pursuant to Section 1002.45(1)(c), Florida Statutes, but are another type of virtual education offered by the District pursuant to Section 1003.498, Florida Statutes. As a result, the District did not provide all students in all grade levels at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and limited student access to the different virtual instruction types.

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

Finding No. 13: Virtual Instruction Program - Written Parental Notifications

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

District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. Such communication included the District's Web site and brochures annually distributed to each student. While these methods indicate efforts by District personnel to communicate with parents and students about VIP options for the 2013-14 school year, District records did not evidence that written

notifications were provided directly to parents. Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.

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

Finding No. 14: Virtual Instruction Program - Computing Resources

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

- District personnel indicated that families are verbally notified during the orientation process of the availability of computers to qualifying students; however, District records did not evidence these notifications. Also, the District's VIP brochure indicated that the VIP may be beneficial for students if they own or have access to a computer with Internet access and e-mail, which implies that students needed such access to participate in VIP. District personnel indicated that, although computer equipment was made available to eligible students when requested, Internet services were not provided by supplying an Internet provider or by reimbursement of such services. Such practices may have discouraged potential VIP students who did not have home access to the Internet.
- District personnel did not determine whether students who requested computing resources already had a computer in their homes. District personnel indicated that if a student qualified for free and reduced price school lunches and requested a computer, a computer was provided; however, District records did not evidence a determination of whether a student already had a computer at home.

Without appropriately notifying parents of students in VIPs of the availability of computer equipment and Internet access, students may not have the computing resources required to successfully complete VIP courses.

Recommendation: The District should enhance control procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources and all qualified VIP students are provided computer resources.

Finding No. 15: Virtual Instruction Program - Attendance

Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance. The District's *Curriculum Guide and Student Handbook (Handbook)* posted on its Web site describes the District's VIP operations, and indicates that attendance is determined by monitoring online coursework through course submissions and course assessments. To have satisfactory attendance, student course work must primarily be submitted weekly.

Our review of the assignment completions for 25 students enrolled in the District's VIP program disclosed for 12 of the 25 students tested, student pace lagged significantly behind the *Handbook* requirements based on homework submission dates. For 11 of these students, homework submission dates ranged from 20 to 107 days late, or an

average of 45 days late. For the other exception, the student's attendance was based on homework assessments, not the homework submission dates, and District records indicated homework assessments were unsatisfactory to evidence the student met the attendance requirements. Absent effective procedures to verify student attendance and records documenting such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.

Recommendation: The District should establish control procedures to require documented verification that students enrolled in VIPs have complied with compulsory attendance requirements as prescribed by State law.

Finding No. 16: Information Technology – Security Controls - User Authentication, Data Loss Prevention, and Logging and Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to user authentication, data loss prevention, and logging and monitoring of system activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, data loss prevention, and logging and monitoring of system activity, the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings related to user authentication were communicated to District management in connection with our report Nos. 2009-067 and 2012-077.

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

PRIOR AUDIT FOLLOW UP

The following table provides information on recurring audit findings for the District:

Current Fiscal Year Finding Numbers	Financial and Federal Single Audit		Operational	
	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2007-08 Fiscal Year Audit Report and Finding Numbers
7	NA	NA	Audit Report No. 2012-077, Finding No. 3	Audit Report No. 2009-067, Finding No. 4
16	NA	NA	Audit Report No. 2012-077, Finding No. 13	Audit Report No. 2009-067, Finding No. 13

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*LAKE 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
Purvis, Gray, & Company		No prior Federal audit findings.		

EXHIBIT A MANAGEMENT'S RESPONSE



Leading our Students to Success

201 West Burleigh Boulevard • Tavares • FL 32778-2496
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Superintendent:
Susan Moxley, Ed.D

School Board Members:

District 1

Bill Mathias

District 2

Rosanne Brandenburg

District 3

Marc Dodd

District 4

Debbie Stivender

District 5

Stephanie Luke

March 20, 2015

Mr. David W. Martin, CPA
Florida Auditor General
C74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

We would like to take the opportunity to thank you and your local audit staff for the assistance that the 2013-14 Operational Compliance audit provides to the District. We look to your findings as guidance and use them to focus on areas of needed improvement in our policies and procedures. As the School Board Chairman is now required to report to the Joint Legislative Auditing Committee on those findings for which we have not implemented your recommendations, those recommendations are now, in fact, requirements. As requirements, we will look at each finding to consider what purpose it is intended to serve and what statutory or authoritative guidance supports the finding.

In response to the Preliminary and Tentative Audit Findings, we offer the following:

Finding No. 1: Monthly Financial Reports

We transitioned to a new computer system effective October 2013. We had numerous discussions with the School Board prior to and during the conversion and transition, that monthly reports would not be available for a period of time during the 2013-14 fiscal year. The new system is operational and regular monthly reporting to the Board has been resumed for the 2014-15 fiscal year. No further action is required.

Finding No. 2: Audits - School Internal Funds

We have a CPA firm under contract that completes the audit of our Comprehensive Annual Financial Report (CAFR) each year, including 2013-14. The School Internal Accounts are specifically identified and included in the engagement letter and in the audit reports presented in the 2013-14 CAFR. Nothing in SBE Rule 6A-1.087, FAC, "clearly" contemplates the completion of a "separate" audit report, the scope of which focuses only on school internal funds. We have complied with the requirements of SBE Rule 6A-1.087, FAC., but in the future we will request that a separate audit report is issued.

Finding No. 3: Transportation Inventory

This is information that was identified by our Director of Internal Audit and presented to the Board in December 2014. Part of the new computer system includes a perpetual inventory module that continues to be implemented. This feature was one of many considerations we

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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made in the selection of the new system. We plan to have all District inventories operational during the 2015-16 fiscal year.

Finding No. 4: Health Insurance Plan – Participant Eligibility

This was a lack of communication with our TPA which has been corrected. Dependent eligibility had historically been completed by the TPA and that responsibility now falls on the District. Appropriate procedures are in place to ensure future compliance.

Finding No. 5: Group Health Self-Insurance Plan

We will seek guidance from the Florida Department of Financial Services, Office of Insurance Regulation (OIR) and our Actuary to ensure that our self-funded employee health insurance program is in compliance with all applicable rules and regulations.

Finding No. 6: Severance Pay

The Superintendent's original contract also includes a section related to severability. This article contemplates and provides remedy in the event that any particular article of the contract becomes unlawful or unenforceable due to a change in statute without effecting the balance of the contract. At the time of the change to the statutory provision related to severance pay occurred, the severance pay article became unenforceable with no effect on the remainder of the contract. Therefore, at no time was the contract ever out of compliance with provisions Section 215.425(4)(a), Florida Statutes. The Board approved a new contract with the Superintendent on December 12, 2014, which includes the current language of Section 215.425(4)(a), Florida Statutes. No further action is required.

Finding No. 7: Payroll Processing Procedures

This has been a continuing issue for the District. The Superintendent has issued clear management directives on the proper supervisory and documentary procedures required for payroll. We believe these issues to be isolated instances which will be dealt with individually.

Finding No. 8: Construction Administration

The issue of amount of the performance bond was an oversight due to a change in the project scope that was corrected immediately. While the bonded amount was incorrect temporarily, due to the completion stage of the project when the change was made and the error occurred, at no time was the project balance higher than the outstanding bond. Therefore the District was not at risk.

The use of a Construction Management Entity (CME) provides the District with an additional level of project oversight that is intended to enhance the overall compliance with requirements. The verification of subcontractor licenses and the process of subcontractor bids and related contracts are the specific responsibility of the CME enumerated in the contract. Part of the need for the bonding requirement with the CME is to provide the District remedy in the event of a

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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breach of contract. We have historically used a mid-project construction contract compliance review by either internal or external auditors to ensure compliance and make any payment adjustments prior to the completion of the project.

While we believe that our procedures, including the construction compliance review, provide appropriate level of control, we will review those procedures in the future and determine what, if any, improvements should be made.

Finding No. 9: Enterprise Resource Planning Software

First and foremost, the purchase of copyrighted software directly from the owner is specifically exempted from bid procedures under SBE Rule 6A-1.002 (11)(b), FAC. Further SBE Rule 6A-1.012(14), FAC, states that the District may acquire information technology systems, such as enterprise resource planning (ERP) software, through the competitive solicitation process or by direct negotiation and contract with a provider as best fit the District's needs determined by the Board.

The District always has the requirement to exercise due diligence and professional care in all expenditures of public funds. On October 22, 2012, we presented the following summary of the due diligence performed in the 18 months preceding the request for approval from the Board:

The TERMS computer system that is used by Lake County Schools for Finance and Student Management was originally installed in 1979-80 by a company called Educational Data Resources (EDR), Inc. In 2000, ERD was purchased by Crosspointe, Inc. and, the last major update to the system occurred in 2003. For many years, we have paid an annual maintenance contract for system upgrades and support. Crosspointe, Inc has undergone several organizational changes and became, Crosspointe, LLC and is now EDR, LLC.

The current TERMS system is a COBOL based software that runs on an AS400 platform. It has served us well, but is outdated, inflexible and lacking in specific areas we have identified as needed. For example, online payroll, timesheets and leave records are not part of the existing system. As a result, and over time, we have come to use a very manual and labor intensive method to record and report this information. For some time the District personnel has been researching alternatives to the current software system.

In March 2011, Crosspointe, LLC (now EDR, LLC) presented a conceptual introduction to what was presented as an update to our existing TERMS systems to be called TERMS 20-20. District staff worked with Crosspointe, LLC (now EDR, LLC) in numerous "listen and learn" sessions designed to provide input into the new system update. At some point, it became obvious, that TERMS 20-20 was not to be an update to our existing system but was actually an entirely new system which the District was expected to purchase. In June 2012, an estimate of the software and installation cost was requested and received totaling \$5,495,895 plus annual maintenance of \$225,000 for the next three years.

During this same time, staff had been researching alternatives to provide a fully integrated, single database system with general expertise in the K-12 setting and with successful experience in Florida School Districts. Our research, led us to a company called Skyward, Inc. who we invited to demonstrate their product to selected District staff. Our research continued by interviewing other Florida District regarding their satisfaction with the product, the installation and data conversion process and the ongoing support provided by the vendor. We also visited Citrus County Schools as they were the most recent District to convert and we were interested in their experiences. All the interviews with other districts and our visit to Citrus County Schools resulted in very positive recommendations based on their experiences with Skyward, Inc. Several of the School Districts and the North East Florida Education Consortium (NEFEC) when through a thorough bid

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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process that led each to the selection of Skyward, Inc. We are recommending piggybacking off the Marion County Bid process as one of the most current available.

Skyward, Inc. has been in business since 1980 and provides a fully integrated, single database system for both Financial and Student Management. Skyward, is the official software for the State of Texas and the State of Washington. Overall, they have approximately 20 school districts. Skyward has been used successfully in Florida since 2008. The St. Lucie School District (enrollment 39,674) was the first Florida School District to make the change to Skyward. Since that time approximately 20 Florida School Districts have selected Skyward for their Finance and/or Student Management Solutions. This acceptance by other Florida School Districts provides a local user support base as we move forward.

The Skyward System is composed of two major suites, Business and Student and is intended to replace the existing TERMS systems throughout the District. Where we have existing ancillary software systems, we will continue to evaluate replacing them with the modules available through Skyward. Both suites have additional modules that can be added to replace existing software if determined appropriate. Skyward has agreed to hold the price on the modules for a period of 2 years, as we continue to evaluate the other systems or complete existing contracts.

We presented the recommendation to the Software Committee and to the Technology Advisory Committee on October 2, 2012. Both groups supported the recommendation to bring Skyward Business and Student Suites to the School Board for approval as the Enterprise Resource Program (ERP) solution for Lake County Schools.

The project will be a major undertaking for the Schools District and will take approximately 12-18 months to complete. The project will require clear and guided planning for the installation of the software, conversion of our existing data and training of our employees. To that end, we will have two staff members specifically dedicated to project management and a Skyward Project Manager will be on-site through the conversion and installation process. In the end, we expect a product that will greatly improve the efficiency and effectiveness of District operations and provide flexible, timely and accurate reporting both internally and externally.

The reference to a 'piggyback' on another District's contract was unnecessary and may have been confusing as it was used only as a starting point to directly negotiate a new contract that was approved by the Board. We believe that our due diligence over the purchase of the ERP system did provide the District with appropriate level of control to ensure that the purchase was made at the lowest price consistent with the desired quality.

Finding No. 10: Auditor Selection and Contract

In March 2006, Lake County Schools issued a Request for Qualifications (RFQ) for External Auditing Services. Four proposals were received and the established Audit Committee properly served as the selection committee. A short list of candidates was presented to the Board in May 2006 and contract negotiations began with the selected firm.

In October 2006, the contract was issued and the award was posted to our website. The original contract was for a period of 5 years with the option to renew the agreement for an additional 5 years.

In March 2011, we recommended and the Audit Committee agreed to exercise the contract provision in the original contract.

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EXHIBIT A (CONTINUED)
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In September 2011, the Board approved the recommendation of the Audit Committee to exercise the renewal option in the original contract and a new engagement letter was signed.

All of these actions were in full compliance with the provisions of Section 218.39, Florida Statutes for the selection of the External Auditor.

Throughout this process we believed that the original contract had been completed and signed in October 2006. We discovered that a clerical error was made in back in 2006 and the original contract was dated May of 2006. This was the date of the Board approval to enter into contract negotiations with the selected CPA firm, instead of October 2006, when the engagement letter was actually signed. Instead of entering into a new contract, we would have been better served to extend the original contract for a period of time necessary to execute the extension in accordance with the direction of the Audit Committee. The clerical error in the signature date of the original contract in no way invalidated the entire competitive selection process that was followed in full compliance with Section 218.391, Florida Statutes.

Prior to the expiration of the current contract, we will again undertake the competitive selection process for the selection of the external auditor as required under Section 218.39, Florida Statutes.

Finding No. 11: Virtual Instruction Program Policies and Procedures

We are in the process of completing the procedures manual for Virtual Instruction. It will be in place prior to the start of the 2015-16 school year.

Finding No. 12: Virtual Instruction Program Options

We will ensure that the required number of providers are available to our students for the 2015-16 school year.

Finding No. 13: Virtual Instruction Program Written Parental Notifications

We began including the information about the virtual program on the student report cards in 2014-15 and will ensure that proper notification is provided to parents for the 2015-16 school year.

Finding No. 14: Virtual Instruction Program Computing Resources

We will work with the Florida Department of Education to determine the appropriate manner of communicating the availability of, and providing computing resources to qualified Virtual Instruction Program students.

Finding No. 15: Virtual Instruction Program Attendance

The District's *Curriculum Guide and Student Handbook (Handbook)* posted on the Web site describes the District's VIP operations, and indicates that attendance is determined by monitoring online coursework through course submissions and course assessments. Assignment completion and participation are required to demonstrate subject mastery rather than

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MANAGEMENT'S RESPONSE

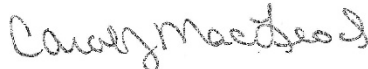
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purely attendance. Understandably, statutorily required compulsory attendance with VIP students is different than for those physically in attendance. However, we will continue to enhance our documentation of attendance and participation procedures to ensure compliance.

Finding No. 16: Information Technology – Security Controls - User Authentication, Data Loss Prevention, and Logging and Monitoring of System Activity

The security, confidentiality, integrity, and availability of data and IT resources is of paramount importance and we do not question the reported items except as it related to the specific controls related to user authentication. We presented and implemented an alternative plan and we now consider the matter closed.

Respectfully submitted,



Carol J MacLeod, CPA
Chief Financial Officer

cc: Susan Moxley, Ed.D
Superintendent of Schools