

GADSDEN 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>
Audrey D. Lewis, Vice Chair from 11-19-13	1
Judge B. Helms, Jr.	2
Isaac Simmons, Jr., Chair to 11-18-13	3
Charlie D. Frost	4
Roger P. Milton, Vice Chair to 11-18-13, Chair from 11-19-13	5

Reginald C. James, Superintendent

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

The audit team leader was Leslee W. Walker, CPA, and the audit was supervised by Karen L. Revell, CPA. Please address inquiries regarding this report to 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.

**GADSDEN COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY (COMBINATION OF CONTROL DEFICIENCIES IN FINANCIAL STATEMENT FINDING NOS. 1, 2, AND 3)

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

Finding No. 2: During the 2013-14 fiscal year, the District's General Fund total assigned and unassigned fund balance declined 47 percent from \$2,198,251 to \$1,172,507, representing a fund balance reduction of \$1,025,744. Under these circumstances, the District has less resources for emergencies and unforeseen situations than other school districts of comparable size.

Finding No. 3: The District needed to enhance its budgetary process.

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. 4: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 6: Controls over monitoring school bus drivers could be enhanced.

Finding No. 7: The District needed to enhance its procedures to require verification of eligibility of all dependents covered by the District's health insurance plan.

Finding No. 8: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, Race-to-the-Top, and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

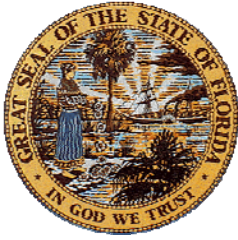
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;

- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2014-171.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 13 percent of the assets and 70 percent of the liabilities of the aggregate remaining fund information. Those financial statements, which were prepared on the cash basis, a special purpose framework, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the school internal funds, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the school internal funds, prior to these conversion adjustments, is based solely on the report of the other auditors. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the discretely presented component unit, is based solely on the report of the other auditors.

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Gadsden County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

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

FINANCIAL HIGHLIGHTS

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

- In total, net position decreased by \$3.6 million, or 5 percent for the 2013-14 fiscal year. This follows a similar decrease in net position of \$2.3 million, or 3 percent, for the 2012-13 fiscal year.
- General revenues total \$53 million, or 92 percent of all revenues for the 2013-14 fiscal year, compared to \$58.4 million, or 93 percent, for the 2012-13 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$4.9 million, or 8 percent of all revenues, compared to \$4.4 million, or 7 percent, in the prior fiscal year.
- The assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$1.2 million at June 30, 2014, or 2.8 percent of General Fund expenditures, as compared to \$2.2 million at June 30, 2013, or 5 percent of General Fund expenditures and \$2.8 million at June 30, 2012, or 7 percent of General Fund expenditures.
- During the current fiscal year, General Fund expenditures exceeded revenues by \$2.8 million. This may be compared to the 2012-13 fiscal year's result in which General Fund expenditures exceeded revenues by \$2.1 million and the 2011-12 fiscal year's results in which General Fund expenditures exceeded revenues by \$2.5 million.
- The total long-term debt increased by \$4.5 million, primarily because the District issued a sales tax revenue bond and a note to pay for the Havana Middle School addition and entered into a lease purchase agreement to purchase 10 new school buses during the fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to financial statements.

This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net

position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

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

Fund Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-14	6-30-13
Current and Other Assets	\$ 7,095,159	\$ 7,180,610
Capital Assets	71,553,531	70,136,719
Total Assets	78,648,690	77,317,329
Long-Term Liabilities	11,792,478	6,836,423
Other Liabilities	564,560	559,291
Total Liabilities	12,357,038	7,395,714
Net Position:		
Net Investment in Capital Assets	67,147,228	69,056,719
Restricted	3,107,246	3,355,954
Unrestricted Deficit	(3,962,822)	(2,491,058)
Total Net Position	\$ 66,291,652	\$ 69,921,615

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

reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

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

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-14	6-30-13
Program Revenues:		
Charges for Services	\$ 296,313	\$ 285,595
Operating Grants and Contributions	4,172,534	3,753,359
Capital Grants and Contributions	444,907	371,682
General Revenues:		
Property Taxes, Levied for Operational Purposes	8,646,326	8,908,718
Property Taxes, Levied for Capital Projects	2,143,363	2,148,318
Grants and Contributions Not Restricted to Specific Programs	41,240,131	45,118,679
Unrestricted Investment Earnings	12,784	28,688
Miscellaneous	970,386	2,155,834
Total Revenues	57,926,744	62,770,873
Functions/Program Expenses:		
Instruction	27,348,291	28,843,636
Student Personnel Services	2,776,786	3,004,035
Instructional Media Services	838,465	873,120
Instruction and Curriculum Development Services	2,240,619	2,520,344
Instructional Staff Training Services	2,106,492	2,340,657
Instruction Related Technology	337,567	1,231,217
School Board	516,179	479,534
General Administration	949,920	845,317
School Administration	3,569,941	3,458,159
Facilities Acquisition and Construction	273,908	416,610
Fiscal Services	481,361	459,248
Food Services	4,000,656	4,087,449
Central Services	702,990	585,334
Student Transportation Services	4,364,989	4,382,727
Operation of Plant	5,949,382	5,777,525
Maintenance of Plant	1,302,852	1,500,492
Administrative Technology Services	616,822	690,525
Community Services	344,711	373,726
Unallocated Interest on Long-Term Debt	93,485	65,493
Unallocated Depreciation Expense	2,724,092	3,141,684
Loss on Disposal of Capital Assets	17,199	28,000
Total Functions/Program Expenses	61,556,707	65,104,832
Change in Net Position	(3,629,963)	(2,333,959)
Net Position - Beginning	69,921,615	72,255,574
Net Position - Ending	\$ 66,291,652	\$ 69,921,615

The largest revenue source is the State of Florida (54 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Other State revenues are primarily for meeting the requirements of the class size amendment.

Grants and contributions not restricted to specific programs revenues decreased by \$3.9 million from the 2012-13 fiscal year due, in part, to a \$1.8 million decrease in American Recovery and Reinvestment Act (ARRA) Federal grants and a \$2.5 million decrease in non-ARRA Federal grants.

Instruction expenses represent 44 percent of total governmental expenses in the 2013-14 fiscal year. Overall, expenditures decreased by \$3.5 million, or 5 percent since the prior fiscal year, due primarily to District efforts to reduce costs to offset the reduction in revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$0.04 million during the fiscal year to \$5.7 million at June 30, 2014. Approximately 20 percent of this amount is unassigned fund balance (\$1.13 million), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form (\$0.27 million); 2) restricted for particular purposes (\$4.26 million); or 3) assigned for particular purposes (\$0.04 million).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, assigned and unassigned fund balance is \$1.2 million, while the total fund balance is \$1.5 million. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 2.8 percent of the total General Fund revenues, while total fund balance represents approximately 3.5 percent of total General Fund revenues. Key factors impacting the change in fund balance are declining enrollment and maintaining student support and personnel at previously funded levels.

The Special Revenue – Other Fund is used by the District to account for resources of certain Federal grant programs and, for the 2013-14 fiscal year, had revenues and expenditures totaling \$8.9 million each, a reduction of \$2.6 million since the 2012-13 fiscal year. Activity in this fund decreased substantially due to a reduction of Federal program funding, primarily for the Title I and School Improvement grants. The Special Revenue – Federal Economic Stimulus Fund is used to account for the ARRA funding and other Federal Stimulus funding had revenues and expenditures of \$0.7 million each. This was a reduction of \$1.8 million, or 71 percent, since the 2012-13 fiscal year. This reduction in funding is a result of the phasing out of the Federal ARRA funding. Because grant revenues attributed to the Federal grants accounted for in these special revenue funds are not recognized until expenditures are incurred, these funds generally do not accumulate significant fund balances.

The Capital Projects – Local Capital Improvement (LCI) Fund and Capital Projects – Other (Other) Fund have total fund balances of \$1.8 million and \$1.2 million, respectively. These funds are restricted for the acquisition, construction, and maintenance of capital assets. The fund balance of the LCI Fund decreased by \$0.8 million due to the start-up costs of the Havana Middle School Addition, while the fund balance of the Other Fund increased by \$1.2 million because the proceeds from bonds issued to fund the construction of Havana Middle School Addition exceeded the current fiscal year expenditures for the project. It should be noted that \$1.3 million and \$0.8 million, respectively, of the total fund balance of the LCI and Other Funds has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant variances between the General Fund final amended budget and actual reported revenues. However, the District did not revise its approved budget or present amendments to the Board during the course of the fiscal year. As a result, there were significant differences between the General Fund final budgeted appropriations and the actual expenditures as disclosed in note I.F to the financial statements.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, is \$71.6 million (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles. The total increase in capital assets for the current fiscal year was approximately 2 percent.

Major capital asset events included the construction of the Havana Middle School Addition.

Additional information on the District's capital assets can be found in note II.E and II.H to the financial statements.

Long-Term Debt

At June 30, 2014, the District has total long-term debt outstanding of \$5.6 million, comprised of \$0.8 million in an installment-purchase payable; \$1.6 million for a note payable; and \$3.2 million of bonds payable.

During the fiscal year, the District issued new debt totaling \$5.1 million, comprised of \$1.7 million in a note payable, \$2.4 million in bonds payable, and \$1 million in an installment-purchase payable.

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

OTHER MATTERS OF SIGNIFICANCE

Declining property tax revenues, the close-out of Federal stimulus grant funding, and decreases in other Federal grant funding have resulted in less funding available to operate District schools and programs using these funding sources, which transfers more of the financing burden to the General Fund. In addition, the District's schools continued trend in enrollment declines will result in decreased FEFP funding available for District operations and will continue to negatively impact the fiscal condition of the District. The District plans to increase efforts to reduce expenses and build reserves to offset the reductions in funding. In addition, as a result of the declining trend in the number of full-time equivalent students, the District will start long-term planning to close schools and reduce operating costs.

The District began construction of the Havana Middle School Addition in the current fiscal year, which will merge the elementary and the middle school operations together, resulting in a future decrease in operation of plant costs in the next fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent for Business and Finance, Gadsden County District School Board, 35 Martin Luther King, Jr., Boulevard, Quincy, FL 32351.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 5,190,633.42	\$ 1,794,471.00
Investments	36,585.82	263,627.00
Accounts Receivable	141,811.78	
Due From Primary Government		35,593.00
Due from Other Agencies	631,058.16	
Prepaid Items		35,832.00
Notes Receivable	826,239.37	
Inventories	268,830.71	
Capital Assets:		
Nondepreciable Capital Assets	4,556,487.37	
Depreciable Capital Assets, Net	66,997,043.80	3,791,587.00
TOTAL ASSETS	78,648,690.43	5,921,110.00
LIABILITIES		
Payroll Deductions and Withholdings	53.09	
Accounts Payable	521,378.24	338,323.00
Accrued Interest Payable		50,261.00
Due to Other Agencies	43,129.14	
Advanced Revenue		250,000.00
Long-Term Liabilities:		
Portion Due Within One Year	1,465,306.64	61,709.00
Portion Due After One Year	10,327,171.52	1,965,607.00
TOTAL LIABILITIES	12,357,038.63	2,665,900.00
NET POSITION		
Net Investment in Capital Assets	67,147,228.37	
Restricted for:		
State Required Carryover Programs	74,914.63	
Federal Required Carryover Program	4,429.02	
Debt Service	124,129.33	
Capital Projects	2,492,479.91	
Food Service	411,292.09	
Unrestricted	(3,962,821.55)	3,255,210.00
TOTAL NET POSITION	\$ 66,291,651.80	\$ 3,255,210.00

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

**GADSDEN 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	\$ 27,348,291.26	\$ 97,912.25	\$	\$
Student Personnel Services	2,776,785.87			
Instructional Media Services	838,464.58			
Instruction and Curriculum Development Services	2,240,619.25			
Instructional Staff Training Services	2,106,492.43			
Instruction Related Technology	337,566.56			
School Board	516,179.35			
General Administration	949,920.34			
School Administration	3,569,941.23			
Facilities Acquisition and Construction	273,907.82			210,465.87
Fiscal Services	481,360.49			
Food Services	4,000,655.83	106,593.17	4,172,534.48	
Central Services	702,990.07			
Student Transportation Services	4,364,988.91	91,807.65		
Operation of Plant	5,949,382.26			
Maintenance of Plant	1,302,851.55			
Administrative Technology Services	616,822.08			
Community Services	344,711.38			
Unallocated Interest on Long-Term Debt	93,485.45			234,440.84
Unallocated Depreciation Expense*	2,724,092.06			
Loss on Disposal of Capital Assets	17,198.46			
Total Governmental Activities	\$ 61,556,707.23	\$ 296,313.07	\$ 4,172,534.48	\$ 444,906.71
Component Unit				
Crossroad Academy Charter School	\$ 2,353,180.00	\$ 0.00	\$ 0.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

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

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

Net (Expense) Revenue and Changes in Net Position		
	Primary Government	Component
	Governmental	Unit
	Activities	
\$	(27,250,379.01)	\$
	(2,776,785.87)	
	(838,464.58)	
	(2,240,619.25)	
	(2,106,492.43)	
	(337,566.56)	
	(516,179.35)	
	(949,920.34)	
	(3,569,941.23)	
	(63,441.95)	
	(481,360.49)	
	278,471.82	
	(702,990.07)	
	(4,273,181.26)	
	(5,949,382.26)	
	(1,302,851.55)	
	(616,822.08)	
	(344,711.38)	
	140,955.39	
	(2,724,092.06)	
	(17,198.46)	
	(56,642,952.97)	
		(2,353,180.00)
	8,646,326.23	
	2,143,362.97	
	41,240,131.16	2,508,375.00
	12,783.81	
	970,385.64	
	53,012,989.81	2,508,375.00
	(3,629,963.16)	155,195.00
	69,921,614.96	3,100,015.00
\$	66,291,651.80	\$ 3,255,210.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 835,654.84	\$ 871.10	\$
Investments	13,173.22		
Accounts Receivable	86,483.47		119.00
Due from Other Funds	340,784.99		
Due from Other Agencies	227,621.17	234,981.01	54,290.18
Notes Receivable	826,239.37		
Inventories	211,506.93		
TOTAL ASSETS	\$ 2,541,463.99	\$ 235,852.11	\$ 54,409.18
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 512.92	\$ 53.09	\$
Accounts Payable	212,654.41	231,370.00	54,409.18
Due to Other Funds	43,129.14		
Due to Other Agencies			
Total Liabilities	256,296.47	231,423.09	54,409.18
Deferred Inflows of Resources:			
Unavailable Revenue - Notes Receivable	826,239.37		
Fund Balances:			
Nonspendable for Inventories	211,506.93		
Restricted for:			
Federal Required Carryover Programs		4,429.02	
State Required Carryover Programs	74,914.63		
Debt Service			
Capital Projects			
Food Service			
Total Restricted Fund Balance	74,914.63	4,429.02	
Assigned for Purchases on Order	42,144.42		
Unassigned Fund Balance	1,130,362.17		
Total Fund Balances	1,458,928.15	4,429.02	
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	\$ 2,541,463.99	\$ 235,852.11	\$ 54,409.18

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,574,941.17	\$ 1,564,534.53	\$ 1,214,631.78	\$ 5,190,633.42
		23,412.60	36,585.82
		203.50	86,805.97
212,654.41			553,439.40
4,083.44		110,082.36	631,058.16
		57,323.78	826,239.37
			268,830.71
<u>\$ 1,791,679.02</u>	<u>\$ 1,564,534.53</u>	<u>\$ 1,405,654.02</u>	<u>\$ 7,593,592.85</u>
\$ 25,035.58	\$ 405,164.36	\$ 90,665.38	\$ 53.09
			521,378.24
			498,433.59
			43,129.14
<u>25,035.58</u>	<u>405,164.36</u>	<u>90,665.38</u>	<u>1,062,994.06</u>
			826,239.37
		57,323.78	268,830.71
			4,429.02
			74,914.63
		124,129.33	124,129.33
1,766,643.44	1,159,370.17	779,567.22	3,705,580.83
		353,968.31	353,968.31
<u>1,766,643.44</u>	<u>1,159,370.17</u>	<u>1,257,664.86</u>	<u>4,263,022.12</u>
			42,144.42
			1,130,362.17
<u>1,766,643.44</u>	<u>1,159,370.17</u>	<u>1,314,988.64</u>	<u>5,704,359.42</u>
<u>\$ 1,791,679.02</u>	<u>\$ 1,564,534.53</u>	<u>\$ 1,405,654.02</u>	<u>\$ 7,593,592.85</u>

GADSDEN 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 \$ 5,704,359.42

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. 71,553,531.17

Long-term notes receivable are not available to pay for current period expenditures, and therefore, is reported as unavailable revenue on the governmental fund statements. 826,239.37

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Installment-Purchase Payable	\$ 852,585.55	
Note Payable	1,562,943.17	
Bonds Payable	3,203,875.00	
Compensated Absences Payable	2,773,335.44	
Other Postemployment Benefits Payable	3,399,739.00	
	(11,792,478.16)	

Net Position - Governmental Activities \$ 66,291,651.80

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 112,736.90	\$ 2,046,030.74	\$ 720,751.96
Federal Through State and Local State	858,583.04 30,654,703.37	6,846,446.45	
Local:			
Property Taxes	8,646,326.23		
Charges for Services - Food Service			
Miscellaneous	946,241.12		
Total Local Revenues	<u>9,592,567.35</u>		
Total Revenues	<u>41,218,590.66</u>	<u>8,892,477.19</u>	<u>720,751.96</u>
Expenditures			
Current - Education:			
Instruction	22,952,450.61	3,874,967.71	298,825.94
Student Personnel Services	1,591,943.25	1,157,509.76	3,522.55
Instructional Media Services	778,986.80	50,300.00	2,488.25
Instruction and Curriculum Development Services	959,947.12	1,259,518.15	2,078.80
Instructional Staff Training Services	215,693.47	1,641,366.84	231,941.60
Instruction Related Technology	255,879.09	66,120.50	15,088.26
School Board	513,227.02		
General Administration	667,821.24	263,090.44	13,898.59
School Administration	3,454,068.69	75,933.74	4,976.50
Facilities Acquisition and Construction	96,307.26	4,730.03	
Fiscal Services	477,007.31		
Food Services	17,041.26	981.09	
Central Services	408,068.27	142,108.58	147,229.95
Student Transportation Services	3,632,472.46	219,845.73	701.52
Operation of Plant	5,849,428.30	83,496.77	
Maintenance of Plant	1,293,921.76	2,048.75	
Administrative Technology Services	612,405.00	762.11	
Community Services	291,717.84	49,696.99	
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay			
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>44,068,386.75</u>	<u>8,892,477.19</u>	<u>720,751.96</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,849,796.09)</u>		
Other Financing Sources (Uses)			
Transfers In	1,429,825.93		
Issuance of Bonds			
Issuance of Note Payable			
Proceeds from Installment-Purchase			
Proceeds from Sale of Capital Assets	94,641.64		
Insurance Loss Recoveries	16,544.56		
Transfers Out			
Total Other Financing Sources (Uses)	<u>1,541,012.13</u>		
Net Change in Fund Balances	<u>(1,308,783.96)</u>		
Fund Balances, Beginning	<u>2,767,712.11</u>	<u>4,429.02</u>	
Fund Balances, Ending	<u>\$ 1,458,928.15</u>	<u>\$ 4,429.02</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		4,108,684.48	2,158,767.64
	152,080.00	357,555.41	12,534,465.93
			31,164,338.78
2,143,362.97			10,789,689.20
		106,593.17	106,593.17
3,878.54		15,384.08	965,503.74
<u>2,147,241.51</u>		<u>121,977.25</u>	<u>11,861,786.11</u>
<u>2,147,241.51</u>	<u>152,080.00</u>	<u>4,588,217.14</u>	<u>57,719,358.46</u>
			27,126,244.26
			2,752,975.56
			831,775.05
			2,221,544.07
			2,089,001.91
			337,087.85
			513,227.02
			944,810.27
			3,534,978.93
171,966.26			273,003.55
			477,007.31
		3,965,538.06	3,983,560.41
			697,406.80
			3,853,019.71
			5,932,925.07
			1,295,970.51
			613,167.11
			341,414.83
974,203.86	1,210,629.83	1,207,438.81	3,392,272.50
1,104,448.83			1,104,448.83
222,281.45		408,181.83	630,463.28
<u>400.00</u>		<u>93,085.45</u>	<u>93,485.45</u>
<u>2,473,300.40</u>	<u>1,210,629.83</u>	<u>5,674,244.15</u>	<u>63,039,790.28</u>
<u>(326,058.89)</u>	<u>(1,058,549.83)</u>	<u>(1,086,027.01)</u>	<u>(5,320,431.82)</u>
5,000.00		360,659.56	1,795,485.49
	2,370,000.00		2,370,000.00
		1,725,000.00	1,725,000.00
1,074,867.00			1,074,867.00
			94,641.64
			16,544.56
<u>(1,598,855.01)</u>	<u>(152,080.00)</u>	<u>(44,550.48)</u>	<u>(1,795,485.49)</u>
<u>(518,988.01)</u>	<u>2,217,920.00</u>	<u>2,041,109.08</u>	<u>5,281,053.20</u>
(845,046.90)	1,159,370.17	955,082.07	(39,378.62)
<u>2,611,690.34</u>		<u>359,906.57</u>	<u>5,743,738.04</u>
<u>\$ 1,766,643.44</u>	<u>\$ 1,159,370.17</u>	<u>\$ 1,314,988.64</u>	<u>\$ 5,704,359.42</u>

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

Net Change in Fund Balances - Governmental Funds **\$ (39,378.62)**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 1,434,010.31

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (17,198.46)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current fiscal year.

Installment-Purchase Proceeds	\$ 1,074,867.00	
Note Proceeds	1,725,000.00	
Bond Proceeds	2,370,000.00	
Installment-Purchase Payments	(222,281.45)	
Note Payments	(162,056.83)	
Bond Payments	<u>(246,125.00)</u>	(4,539,403.72)

Payments received on notes receivable in the current fiscal year are reported as revenues on the fund statements. However, the revenues reduce the amounts of notes receivable in the statement of net position. This is the amount of current fiscal year receipts. (51,341.64)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (123,326.03)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (293,325.00)

Change in Net Position - Governmental Activities **\$ (3,629,963.16)**

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 211,754.07
LIABILITIES	
Accounts Payable	\$ 11,280.55
Due to Other Funds	55,005.81
Internal Accounts Payable	145,467.71
Total Liabilities	\$ 211,754.07

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

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

B. Reporting Entity

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

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

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

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

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

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

C. Basis of Presentation: Government-wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

- Capital Projects – Other Fund – to account for the financial resources generated by various State and local sources to be used for educational capital outlay needs, including new construction, and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

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

E. Basis of Accounting

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

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

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

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

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

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

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

F. Budgetary Information: Excess of Expenditures Over Appropriations in Individual Funds

For the fiscal year ended June 30, 2014, expenditures exceeded appropriations by function (the legal level of budgetary control) for the following individual funds:

<u>Fund/Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General:			
Student Personnel Services	\$ 1,499,412.49	\$ 1,591,943.25	\$ (92,530.76)
Instructional Media Services	653,436.81	778,986.80	(125,549.99)
Instructional Staff Training	132,643.94	215,693.47	(83,049.53)
Instruction Related Technology	47,630.49	255,879.09	(208,248.60)
General Administration	443,414.58	667,821.24	(224,406.66)
School Administration	3,225,246.30	3,454,068.69	(228,822.39)
Facilities Acquisition and Construction	88,502.91	96,307.26	(7,804.35)
Fiscal Services	416,456.51	477,007.31	(60,550.80)
Food Services	336.42	17,041.26	(16,704.84)
Central Services	351,164.76	408,068.27	(56,903.51)
Student Transportation Services	3,072,322.12	3,632,472.46	(560,150.34)
Operation of Plant	4,680,150.82	5,849,428.30	(1,169,277.48)
Administrative Technology Services	417,361.13	612,405.00	(195,043.87)
Capital Projects - Local Capital Improvement Fund:			
Debt Service: Principal		222,281.45	(222,281.45)
Debt Service: Fiscal Charges		400.00	(400.00)
Capital Projects - Other Fund:			
Facilities Acquisition and Construction		1,210,629.83	(1,210,629.83)
Transfers Out	80,000.00	152,080.00	(72,080.00)

The District intends to create a Budget Director position which will be in charge of developing and monitoring the budget, and presenting budget amendments to the Board for approval. In addition, a budget committee will be formed to review the budget process and staffing plans, and ensure adequate funds are set aside to accomplish District goals.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less.

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

2. Investments

Investments consist of amounts placed in the State Board of Administration (SBA) debt service accounts for investment of debt service moneys, 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. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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

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

3. Inventories

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

4. Capital Assets

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	10 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	5 - 7 years
Motor Vehicles	5 - 10 years

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

5. Long-Term Liabilities

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

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

6. Deferred Inflows of Resources

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

7. Net Position Flow Assumption

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

8. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as

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

9. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 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 District classifies amounts as assigned that are constrained to be used for specified purposes based on actions of the Superintendent and Assistant Superintendent for Business and Finance and not included in other categories. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program Revenues

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

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2. State Revenue Sources

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

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

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

3. District Property Taxes

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

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

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

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

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

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

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

B. Investments

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

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Fund B	2.86 Year Average	\$ 13,173.22
Debt Service Accounts	6 Months	23,412.60
Total Investments		<u>\$ 36,585.82</u>

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➤ Interest Rate Risk

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

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

➤ Credit Risk

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

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

The District's investment in Fund B is unrated.

C. Due From Primary Government

As of June 30, 2014, the District's component unit (Charter School) reported \$35,593 as Due from Primary Government (District) related to charter school capital outlay proceeds received by the District for subsequent disbursement to the Charter School to reimburse capital outlay expenditures. However, the District did not record a corresponding Due to Component Unit because the Charter School had not submitted a request for payment of capital outlay expenditures and, therefore, the District was not aware that a liability had been incurred at June 30, 2014.

D. Notes Receivables

The District sold Chattahoochee High School, Havana North Side High School, and Greensboro Elementary School each to a separate not-for-profit corporation, and as part of the sales agreement, the District issued and held interest bearing notes receivable in the amount of the sales price. The first note was for \$500,000, bearing interest at one percent per annum, payable in monthly installments of \$2,299.47

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until paid-in-full with the first installment received February 1, 2011. The second note was for \$205,000, bearing interest at one percent per annum, payable in monthly installments of \$942.78 until paid-in-full with the first installment received July 1, 2012. The third note was for \$220,000, bearing interest at one percent per annum, payable in monthly installments of \$1,011.77 until paid-in-full with the first installment due January 1, 2013. At June 30, 2014, the District's remaining notes receivable balance was \$826,239.37.

E. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,744,588.29	\$	\$	\$ 1,744,588.29
Construction in Progress	13,166.35	2,811,899.08	13,166.35	2,811,899.08
Total Capital Assets Not Being Depreciated	1,757,754.64	2,811,899.08	13,166.35	4,556,487.37
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,633,062.15	210,723.19		4,843,785.34
Buildings and Fixed Equipment	91,252,882.97	392,752.74		91,645,635.71
Furniture, Fixtures, and Equipment	6,922,136.03	167,186.72	488,489.91	6,600,832.84
Motor Vehicles	7,365,981.79	1,074,867.00	442,208.00	7,998,640.79
Total Capital Assets Being Depreciated	110,174,062.94	1,845,529.65	930,697.91	111,088,894.68
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,072,895.19	203,760.17		3,276,655.36
Buildings and Fixed Equipment	29,454,014.43	2,182,038.95		31,636,053.38
Furniture, Fixtures, and Equipment	4,603,592.11	338,292.94	485,817.25	4,456,067.80
Motor Vehicles	4,664,596.53	486,160.01	427,682.20	4,723,074.34
Total Accumulated Depreciation	41,795,098.26	3,210,252.07	913,499.45	44,091,850.88
Total Capital Assets Being Depreciated, Net	68,378,964.68	(1,364,722.42)	17,198.46	66,997,043.80
Governmental Activities Capital Assets, Net	\$ 70,136,719.32	\$ 1,447,176.66	\$ 30,364.81	\$ 71,553,531.17

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Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 486,160.01
Unallocated	<u>2,724,092.06</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,210,252.07</u>

F. Florida Retirement System

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

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

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

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

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County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
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 \$2,271,098.83, \$2,246,601.67, and \$2,873,514.21, respectively, which were equal to the required contributions for each fiscal year.

There were 102 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$205,475.24, which was equal to the required contribution for the 2013-14 fiscal year.

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

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G. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Pursuant to Section 112.0801, Florida Statutes, the District contributed towards the cost of healthcare benefits for former employees who retire prior to May 2, 2001. Effective October 1, 2002, the Board decreased its contribution from \$50 to \$30 per month per former retired employees. Premiums totaled \$67,398 for the 2013-14 fiscal year, and the District provided benefits to 141 retired former employees at June 30, 2014. The benefits provided under this defined benefit plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the District and may be amended by Board action. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 141 retirees received other postemployment benefits. The District provided required contributions of \$391,034 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling \$430,229, which represents 1.7 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.

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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:

Description	Amount
Normal Cost (service cost for one year)	\$ 290,388
Amortization of Unfunded Actuarial Accrued Liability	<u>516,435</u>
Annual Required Contribution	806,823
Interest on Net OPEB Obligation	116,491
Adjustment to Annual Required Contribution	<u>(238,955)</u>
Annual OPEB Cost (Expense)	684,359
Contribution Toward the OPEB Cost	<u>(391,034)</u>
Change in Net OPEB Obligation	293,325
Net OPEB Obligation, Beginning of Year	<u>3,106,414</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,399,739</u></u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 690,798	53.5%	\$ 2,785,039
2012-13	690,798	53.5%	3,106,414
2013-14	684,359	57.1%	3,399,739

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$6,352,975, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,352,975 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,755,820, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 25.7 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the

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JUNE 30, 2014**

notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of October 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and to estimate the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.75 percent per year, projected salary increases of 4 to 8.375 percent and an annual healthcare cost trend rate of 8.5 percent initially beginning October 1, 2013, reducing to 5 percent beginning October 1, 2020, and then increasing to the ultimate rate of 5.17 percent beginning in October 1, 2033. The investment rate of return and projected salary increases rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2014, was 12 years.

H. 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					
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	Total Governmental Funds
<u>\$ 42,144</u>	<u>\$ 52,628</u>	<u>\$ 5,677</u>	<u>\$ 1,270,502</u>	<u>\$ 806,726</u>	<u>\$ 2,177,677</u>

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

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

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Havana Middle School Addition	<u>\$ 5,595,000.00</u>	<u>\$ 2,811,899.08</u>	<u>\$ 2,783,100.92</u>

I. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, general liability, buildings and contents, boiler and machinery, error and omissions, and employee health and hospitalization, life, and dental coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

J. Installment-Purchase Payable

The class and amount of property being acquired under installment-purchase are as follows:

	<u>Asset Balance</u>
Buses	<u>\$ 1,074,867</u>

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 222,281.45	\$ 207,787.50	\$ 14,493.95
2016	222,281.45	211,319.89	10,961.56
2017	222,281.45	214,912.33	7,369.12
2018	222,281.45	218,565.83	3,715.62
Total Installment-Purchase Payable	<u>\$ 889,125.80</u>	<u>\$ 852,585.55</u>	<u>\$ 36,540.25</u>

The stated interest rate is 1.70 percent.

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

K. Long-Term Liabilities

1. Note Payable

Note payable at June 30, 2014, is as follows:

Note Description	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
Section 1011.14, Florida Statutes, Note: Havana Middle School Addition	<u>\$ 1,562,943.17</u>	2.76	2018

The District entered into a note totaling \$1,725,000 in October 2013 as allowed under the provisions of Section 1011.14, Florida Statutes, which authorizes district school boards to create obligations for a period of one year. This obligation is allowed in anticipation of budgeted revenues accruing on a current basis without pledging the credit of the District or requiring future levy of taxes for certain purposes. These obligations may be extended from year to year, with the consent of the lender, for a period not to exceed four years, for a total of five years, including the initial year of the loan. This obligation was undertaken to finance the construction of a classroom wing at Havana Middle School.

Amounts payable for the planned extended repayment of the Section 1011.14, Florida Statutes, bank loan are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 371,723.67	\$ 330,853.68	\$ 40,869.99
2016	371,723.66	340,048.25	31,675.41
2017	371,723.67	349,498.34	22,225.33
2018	371,723.66	359,211.05	12,512.61
2019	<u>185,861.83</u>	<u>183,331.85</u>	<u>2,529.98</u>
Total	<u>\$ 1,672,756.49</u>	<u>\$ 1,562,943.17</u>	<u>\$ 109,813.32</u>

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

2. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 840,000	5	2018
Series 2009A, Refunding	55,000	5	2019
Sales Tax Revenue Bonds:			
Series 2013	<u>2,308,875</u>	3.28	2028
Total Bonds Payable	<u>\$ 3,203,875</u>		

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

➤ Sales Tax Revenue Bonds, Series 2013 (Pari-Mutuel Revenues Replacement Program)

These bonds are authorized by Chapters 57-665 and 70-693, Section 212.20, Florida Statutes, and a resolution adopted by the Gadsden County District School Board on October 22, 2013. These bonds are secured by pari-mutuel replacement revenues distributed annually to Gadsden County from the State pursuant to Section 212.20(6)(d)6.a., Florida Statutes, as a replacement for moneys distributed under Section 550.135, Florida Statutes, prior to July 1, 2000.

The District has pledged a total of \$2,919,816.01 of sales tax revenues in connection with the District Sales Tax Bonds, Series 2013, described above. During the 2013-14 fiscal year, the District recognized sales tax revenues totaling \$223,250 and expended \$74,081 (33 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on July 1, 2028. Approximately 87 percent of this revenue stream has been pledged in connection with debt service on the sales tax bonds.

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

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	\$ 244,750.00	\$ 200,000.00	\$ 44,750.00
2016	249,750.00	215,000.00	34,750.00
2017	249,000.00	225,000.00	24,000.00
2018	247,750.00	235,000.00	12,750.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	1,012,250.00	895,000.00	117,250.00
State Tax Revenue Bonds:			
2015	201,366.62	126,665.73	74,700.89
2016	201,366.62	130,854.44	70,512.18
2017	201,366.63	135,181.66	66,184.97
2018	201,366.62	139,651.97	61,714.65
2019	201,366.62	144,270.12	57,096.50
2020-2024	1,006,833.11	796,148.20	210,684.91
2025-2028	906,149.79	836,102.88	70,046.91
Total District Revenue Bonds	2,919,816.01	2,308,875.00	610,941.01
Total	\$ 3,932,066.01	\$ 3,203,875.00	\$ 728,191.01

3. Changes in Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	\$	\$ 1,074,867.00	\$ 222,281.45	\$ 852,585.55	\$ 207,787.50
Note Payable		1,725,000.00	162,056.83	1,562,943.17	330,853.68
Bonds Payable	1,080,000.00	2,370,000.00	246,125.00	3,203,875.00	326,665.73
Compensated Absences Payable	2,650,009.41	293,887.32	170,561.29	2,773,335.44	599,999.73
Other Postemployment Benefits Payable	3,106,414.00	684,359.00	391,034.00	3,399,739.00	
Total Governmental Activities	\$ 6,836,423.41	\$ 6,148,113.32	\$ 1,192,058.57	\$ 11,792,478.16	\$ 1,465,306.64

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

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

L. Fund Balance Reporting

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

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

M. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 340,784.99	\$ 212,654.41
Special Revenue:		
Other		231,370.00
Federal Economic Stimulus		54,409.18
Capital Projects:		
Local Capital Improvement	212,654.41	
Fiduciary		55,005.81
Total	<u>\$ 553,439.40</u>	<u>\$ 553,439.40</u>

The interfund balance between the General Fund and Special Revenue – Other and Federal Economic Stimulus Funds represents temporary borrowing of cash to cover projects that are awaiting reimbursement from other agencies. The interfund balance between the General Fund and Capital Projects – Local Capital Improvement Fund represents property taxes recorded in the General Fund but due to the Capital Projects – Local Capital Improvement Fund. The interfund balance between the General Fund and Fiduciary Fund represents cash collected by Gadsden Technical Institute during the 2013-14 fiscal year but not remitted to the General Fund until the 2014-15 fiscal year.

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

N. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 22,342,727.00
Categorical Educational Program - Class Size Reduction	5,796,724.00
Voluntary Prekindergarten Program	808,370.20
Workforce Development Program	711,929.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	292,826.71
School Recognition	230,957.00
Adults with Disabilities	228,755.54
Charter School Capital Outlay	152,080.00
Food Service Supplement	69,100.00
Discretionary Lottery Funds	51,037.00
Miscellaneous	479,832.33
 Total	 <u>\$ 31,164,338.78</u>

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

2. Property Taxes

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

<u></u>	<u>Millages</u>	<u>Taxes Levied</u>
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.303	\$ 7,857,093
Basic Discretionary Local Effort	0.748	1,201,071
 CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,132,600
 Total	 <u>7.551</u>	 <u>\$ 11,190,764</u>

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

O. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,429,825.93	\$
Capital Projects:		
Local Capital Improvement	5,000.00	1,598,855.01
Other		152,080.00
Nonmajor Governmental	360,659.56	44,550.48
Total	<u>\$ 1,795,485.49</u>	<u>\$ 1,795,485.49</u>

The transfers to the General Fund were for maintenance and property casualty insurance premiums paid from the General Fund and reimbursed with the Capital Projects – Local Capital Improvement Fund moneys and charter school capital outlay moneys from the Capital Projects – Other Fund. The transfer to the nonmajor governmental funds was to pay the current year debt service payment on the notes and bonds payable that were issued for the Havana Middle School Addition project.

III. LITIGATION

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 125,083.28	\$ 125,083.28	\$ 112,736.90	\$ (12,346.38)
Federal Through State and Local	875,000.00	875,000.00	858,583.04	(16,416.96)
State	30,745,567.00	30,745,567.00	30,654,703.37	(90,863.63)
Local:				
Property Taxes	8,653,151.66	8,653,151.66	8,646,326.23	(6,825.43)
Miscellaneous	761,000.00	761,000.00	946,241.12	185,241.12
Total Local Revenues	9,414,151.66	9,414,151.66	9,592,567.35	178,415.69
Total Revenues	41,159,801.94	41,159,801.94	41,218,590.66	58,788.72
Expenditures				
Current - Education:				
Instruction	23,908,894.02	23,908,894.02	22,952,450.61	956,443.41
Student Personnel Services	1,499,412.49	1,499,412.49	1,591,943.25	(92,530.76)
Instructional Media Services	653,436.81	653,436.81	778,986.80	(125,549.99)
Instruction and Curriculum Development Services	1,056,765.27	1,056,765.27	959,947.12	96,818.15
Instructional Staff Training Services	132,643.94	132,643.94	215,693.47	(83,049.53)
Instruction Related Technology	47,630.49	47,630.49	255,879.09	(208,248.60)
School Board	830,281.95	830,281.95	513,227.02	317,054.93
General Administration	443,414.58	443,414.58	667,821.24	(224,406.66)
School Administration	3,225,246.30	3,225,246.30	3,454,068.69	(228,822.39)
Facilities Acquisition and Construction	88,502.91	88,502.91	96,307.26	(7,804.35)
Fiscal Services	416,456.51	416,456.51	477,007.31	(60,550.80)
Food Services	336.42	336.42	17,041.26	(16,704.84)
Central Services	351,164.76	351,164.76	408,068.27	(56,903.51)
Student Transportation Services	3,072,322.12	3,072,322.12	3,632,472.46	(560,150.34)
Operation of Plant	4,680,150.82	4,680,150.82	5,849,428.30	(1,169,277.48)
Maintenance of Plant	1,433,254.27	1,433,254.27	1,293,921.76	139,332.51
Administrative Technology Services	417,361.13	417,361.13	612,405.00	(195,043.87)
Community Services	326,264.20	326,264.20	291,717.84	34,546.36
Total Expenditures	42,583,538.99	42,583,538.99	44,068,386.75	(1,484,847.76)
Deficiency of Revenues Over Expenditures	(1,423,737.05)	(1,423,737.05)	(2,849,796.09)	(1,426,059.04)
Other Financing Sources				
Transfers In	1,200,000.00	1,200,000.00	1,429,825.93	229,825.93
Proceeds from Sale of Capital Assets			94,641.64	94,641.64
Insurance Loss Recoveries			16,544.56	16,544.56
Total Other Financing Sources	1,200,000.00	1,200,000.00	1,541,012.13	341,012.13
Net Change in Fund Balances	(223,737.05)	(223,737.05)	(1,308,783.96)	(1,085,046.91)
Fund Balances, Beginning	2,289,306.46	2,289,306.46	2,767,712.11	478,405.65
Fund Balances, Ending	\$ 2,065,569.41	\$ 2,065,569.41	\$ 1,458,928.15	\$ (606,641.26)

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,046,030.74 6,846,446.45	\$ 2,046,030.74 6,846,446.45	\$ 2,046,030.74 6,846,446.45	\$	\$ 1,040,347.56	\$ 1,040,347.56	\$ 720,751.96	\$ (319,595.60)
8,892,477.19	8,892,477.19	8,892,477.19		1,040,347.56	1,040,347.56	720,751.96	(319,595.60)
3,874,967.71	3,874,967.71	3,874,967.71		472,923.75	472,923.75	298,825.94	174,097.81
1,157,509.76	1,157,509.76	1,157,509.76		31,900.90	31,900.90	3,522.55	28,378.35
50,300.00	50,300.00	50,300.00		13,011.38	13,011.38	2,488.25	10,523.13
1,259,518.15	1,259,518.15	1,259,518.15		2,078.80	2,078.80	2,078.80	
1,641,366.84	1,641,366.84	1,641,366.84		231,941.60	231,941.60	231,941.60	
66,120.50	66,120.50	66,120.50		49,106.60	49,106.60	15,088.26	34,018.34
263,090.44	263,090.44	263,090.44		13,898.59	13,898.59	13,898.59	
75,933.74	75,933.74	75,933.74		30,988.71	30,988.71	4,976.50	26,012.21
4,730.03	4,730.03	4,730.03		26,816.41	26,816.41		26,816.41
981.09	981.09	981.09					
142,108.58	142,108.58	142,108.58		147,229.95	147,229.95	147,229.95	
219,845.73	219,845.73	219,845.73		20,450.87	20,450.87	701.52	19,749.35
83,496.77	83,496.77	83,496.77					
2,048.75	2,048.75	2,048.75					
762.11	762.11	762.11					
49,696.99	49,696.99	49,696.99					
8,892,477.19	8,892,477.19	8,892,477.19		1,040,347.56	1,040,347.56	720,751.96	319,595.60
4,429.02	4,429.02	4,429.02					
\$ 4,429.02	\$ 4,429.02	\$ 4,429.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	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	\$ 29,070,050	\$ 29,070,050	0.0%	\$ 27,912,948	104.1%
October 1, 2010	0	6,652,347	6,652,347	0.0%	22,076,006	30.1%
October 1, 2012	0	6,352,975	6,352,975	0.0%	24,755,820	25.7%

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

**GADSDEN 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 SBE rules in establishing budget balances for governmental funds, as described below:

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**GADSDEN 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	\$ 1,024,098.11	\$
National School Lunch Program	10.555 (2)	13001, 13003	2,699,633.61	
Summer Food Service Program for Children	10.559	323, 13006	270,442.33	
Total Child Nutrition Cluster			3,994,174.05	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	13004	115,705.42	
Total United States Department of Agriculture			4,109,879.47	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (3)	262, 263	1,781,405.56	8,401.16
Special Education - Preschool Grants	84.173	266, 267	86,535.54	
Liberty County District School Board:				
Special Education - Grants to States	84.027 (3)	None	2,102.88	
University of South Florida:				
Special Education - Grants to States	84.027 (3)	None	5,500.00	
Total Special Education Cluster			1,875,543.98	8,401.16
TRIO Cluster:				
Florida Agricultural and Mechanical University:				
TRIO - Talent Search	84.044 (4)	None	5,093.00	
Florida State University:				
TRIO - Upward Bound	84.047	None	27,578.50	
Tallahassee Community College:				
TRIO - Talent Search	84.044 (4)	None	10,139.50	
Total Title I, Part A Cluster			42,811.00	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	1,311,278.40	
ARRA - School Improvement Grants, Recovery Act	84.388	126	90,206.38	
Total School Improvement Grants Cluster			1,401,484.78	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 226	2,335,159.28	151,640.27
Career and Technical Education - Basic Grants to States	84.048	161	156,037.22	
Education for Homeless Children and Youth	84.196	127	40,061.15	
Twenty-First Century Community Learning Centers	84.287 (5)	244	563,554.38	
English Language Acquisition Grants	84.365	102	52,156.49	
Improving Teacher Quality State Grants	84.367	224	520,258.43	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (6)	RG311, RG411, RL111, RS611	630,545.58	
Tallahassee Community College:				
Twenty-First Century Community Learning Centers	84.287 (5)	None	87,696.01	
Washington County District School Board:				
Migrant Education - State Grant Program	84.011	None	30,763.00	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (6)	None	16,662.65	16,839.46
Total United States Department of Education			7,752,733.95	168,479.73
United States Department of Health and Human Services:				
Direct:				
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	N/A	4,010.00	
Head Start	93.600 (7)	N/A	2,042,020.74	
Total United States Department of Health and Human Services			2,046,030.74	
Corporation for National and Community Service:				
Indirect:				
Tallahassee Community College:				
Florida AmeriCorps	94.006	None	288,811.48	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	112,736.90	
Total Expenditures of Federal Awards			\$ 14,310,192.54	\$ 176,880.89

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 \$228,858.10 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

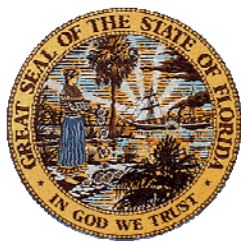
(3) Special Education - Grants to States. Total CFDA No. 84.027 expenditures: \$1,789,008.44.

(4) TRIO - Talent Search. Total CFDA No. 84.044 expenditures: \$15,232.50.

(5) Twenty-First Century Community Learning Centers. Total CFDA No. 84.287 expenditures: \$651,250.39.

(6) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures are \$647,208.23.

(7) Head Start. Expenditures include \$701,571.83 for grant number/program year 04CH0241/28 and \$1,340,448.91 for grant number 04CH4687/01.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board, as of and for the fiscal year ended June 30, 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 25, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by the discretely presented component unit auditors. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as the combination of Financial Statement Finding Nos. 1, 2, and 3, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

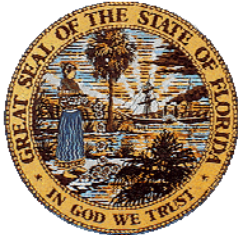
Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2015



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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2015

**GADSDEN 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? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

CFDA Numbers:

10.553, 10.555, and 10.559

84.027 and 84.173

84.395

93.600

Name of Federal Program or Cluster:

Child Nutrition Cluster

Special Education Cluster

ARRA – State Fiscal Stabilization Fund

(SFSF) – Race-to-the Top Incentive

Grants, Recovery Act

Head Start

Dollar threshold used to distinguish between
Type A and Type B programs:

\$429,305

Auditee qualified as low-risk auditee?

No

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

FINANCIAL STATEMENT FINDINGS

THE COMBINATION OF FINANCIAL STATEMENT FINDING NOS. 1 THROUGH 3 REPRESENTS A SIGNIFICANT DEFICIENCY
--

Finding No. 1: Financial Reporting

Our review of the District's 2013-14 fiscal year annual financial report, as submitted to the Florida Department of Education (FDOE) and presented for audit, disclosed that financial reporting procedures could be improved. For example:

- District personnel incorrectly reported the tax levy proceeds attributed to ad valorem taxes, resulting in overstatements of General Fund assets and local revenue, and understatements of Capital Projects – Local Capital Improvement Fund assets and local revenue, of \$212,654.41. Incorrectly reporting ad valorem tax proceeds in the General Fund increases the risk that the District may violate expenditure restrictions governing the use of these proceeds.
- The Board entered into an installment-purchase agreement for \$1,074,867 with a bank in January 2014, for the purchase of ten school buses. Although the District correctly included the buses in the amount reported for capital assets and the related long-term debt on its government-wide financial statements, the District did not report the purchase of the school buses in the governmental fund statements, resulting in an understatement of Capital Projects - Local Capital Improvement Fund other capital outlay expenditures and proceeds from an installment-purchase of \$1,074,867 each.

Reporting errors such as those noted above may cause financial statement users to misunderstand the District's financial activities and incorrectly assess the District's financial position. We extended our audit procedures to determine the adjustments necessary to ensure the District's financial statements were materially correct, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in our report Nos. 2013-167 and 2014-171.

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

Finding No. 2: Financial Condition

In governmental funds, nonspendable, restricted, and committed accounts are used to indicate the portion of fund balance that is limited for specific purposes and not available for general appropriation by the Board, while the assigned and unassigned fund balance accounts are designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions represent amounts to be used with the most flexibility for emergencies and unforeseen situations.

Section 1011.051, Florida Statutes, requires that the District maintain a General Fund ending fund balance that is sufficient to address normal contingencies. If at any time the portion of the General Fund's ending fund balance not classified as restricted, committed, or nonspendable (i.e. the total assigned and unassigned fund balance) in the District's approved operating budget as a percent of General Fund total revenue (i.e., financial condition ratio) is projected to fall below 3 percent during the fiscal year, the Superintendent must provide written notification to the Board and the FDOE. Further, if at any time the financial condition ratio is projected to fall below 2 percent, the Board should have a reasonable plan to avoid a financial emergency, or the FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency. Also, Section 218.503(3), Florida Statutes, provides for the FDOE to determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition.

In December 2013, the Superintendent notified the Board and the FDOE of a projected General Fund total assigned and unassigned fund balance of \$607,110, or a 1.52 percent financial condition ratio, at June 30, 2014, and submitted a fiscal recovery plan. In the District's fiscal recovery plan, the District projected an increase of this fund balance by \$1,197,115 to \$1,804,225, or a 4.42 percent financial condition ratio, at June 30, 2014. The plan identified certain recommended fiscal recovery strategies, such as staffing reductions. However, the projected fund balance increase at June 30, 2014, was not fully realized, in part, because of the deficiencies noted in Finding No. 1 related to overstating General Fund local revenues and Finding No. 3 related to budget overexpenditures. As a result, during the 2013-14 fiscal year, the District continued to experience a decline in its financial condition as the General Fund total assigned and unassigned fund balance decreased by \$1,025,744, or 47 percent, from \$2,198,251 to \$1,172,507. A summary of the General Fund financial condition ratios for the past three fiscal years is shown below:

Fiscal Year Ended June 30	Total Assigned and Unassigned Fund Balance (A)	Total General Fund Revenues (B)	Financial Condition Ratio (A)/(B)
2012	\$ 2,829,335	\$ 39,739,904	7.12%
2013	2,198,251	41,289,338	5.32%
2014	1,172,507	41,218,591	2.84%

As noted above, the financial condition ratio had declined to 2.84 percent at June 30, 2014. In addition, the fund balance of the General Fund may be further reduced if \$224,650 of Federal questioned costs noted in our report No. 2014-171, Federal Awards Finding No. 1, are required to be restored. In these circumstances, the District has less resources available for emergencies and unforeseen situations than other school districts of comparable size. Failure to reverse the decline of the District's financial condition could culminate in an inability on the part of the District to meet current fiscal obligations.

Recommendation: The Board and the Superintendent should closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

Finding No. 3: Budgetary Controls

The process for adopting and amending the budget provides the District a mechanism to plan a level of expenditures to meet its obligations while remaining within available financial resources. Without properly monitoring and amending the budget to meet changing financial circumstances, there is an increased risk that expenditures may exceed available resources. Section 1011.05, Florida Statutes, provides that the official budget shall not be altered, amended, or exceeded except as authorized.

Section 1011.06, Florida Statutes, provides that the Board may establish policies that allow expenditures to exceed the amount budgeted by function if the Board approves the expenditure and amends the budget within timelines established by the policies. Pursuant to this statute, the Board adopted Board Policy 6233, allowing expenditures to temporarily exceed the amount budgeted within a fund at the function and object level, provided the Board subsequently approves such expenditures and amends the budget no later than the annual due date established by the FDOE for submitting the District's annual financial report.

Our review disclosed that the original budget was prepared and approved in accordance with applicable laws and rules; however, improvements were needed in budgetary controls and compliance. District records indicated that the Board approved no amendments for any funds for the 2013-14 fiscal year. Further, at June 30, 2014, the District had overexpenditures in 13 functional expenditure categories in the General Fund, totaling \$3,029,043; in 2 functional expenditure categories in the Capital Projects – Local Capital Improvement Fund, totaling \$222,681; and in 2 functional expenditure categories in the Capital Projects – Other Fund, totaling \$1,282,709.83.

This deficiency in the District's budgetary procedures has not been conducive to effective management control over the District's resources and may have contributed to the current financial condition of the General Fund, as noted in Finding No. 2. Without properly monitoring and amending the budget to meet changing financial circumstances, there is an increased risk that expenditures may exceed available resources.

Recommendation: The District should enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by State law and rules, which may help the District in monitoring its resources and improving the financial condition of the General Fund.

ADDITIONAL MATTERS

Finding No. 4: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, given the small size of the District, the Accounts Payable Clerk was generally aware of related parties and reviewed new vendors to assess whether conflicts of interest could occur prior to entering into procurement transactions or contractual relationships.

The Superintendent, Board members, and the Assistant Superintendent for Business and Finance were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While statements of financial interests were filed as required, these statements were not provided to personnel responsible for procurement decisions for review. Subsequent to our inquiry in December 2014, Finance Department personnel reviewed the most recent statements of financial interests of the Superintendent and Board members and noted no apparent conflicts of interest.

Providing for routine review and consideration of statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interest by personnel responsible for making procurement decisions.

Finding No. 5: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the FDOE instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts report a student for funding only for the number of hours that a person reasonably could be expected to be in actual attendance.

For the 2013-14 fiscal year, the District reported to the FDOE 11,592 instructional contact hours for 62 students enrolled in 78 adult general education classes. Our review of 1,349 hours reported for 10 students enrolled in 35 adult general education classes disclosed contact hours were over-reported by 282 hours for 19 classes and under-reported by 343 hours for 16 classes, or 61 hours net under-reported for the 35 classes. District personnel indicated that these reporting errors occurred mainly because District personnel incorrectly recorded hours for certain classes into the student record system. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in our report Nos. 2013-167 and 2014-171.

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

Finding No. 6: Bus Drivers

Section 1012.465(2), Florida Statutes, provides that noninstructional personnel, such as bus drivers, who have direct contact with students, must undergo required background screenings at least every five years. District personnel indicated that they periodically perform background screenings of school bus drivers by submitting fingerprints to the Florida Department of Law Enforcement.

The District employed 93 bus drivers during the 2013-14 fiscal year, and our review of the background screenings of 30 bus drivers disclosed 21 bus drivers who had not been rescreened within the last five years. According to District personnel, the District was not up-to-date on rescreening bus drivers. Subsequent to our inquiry, District personnel obtained evidence of background screenings for the 21 bus drivers and noted no inappropriate backgrounds.

Absent the required background screenings of bus drivers, there is an increased risk that these individuals may have backgrounds that are inappropriate for interacting with students.

Recommendation: The District should ensure that required background screenings are timely performed for all employees.

Finding No. 7: Health Insurance Plan – Participant Eligibility

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute \$338.75 per month for 12 months toward the health insurance of each full-time employee and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan upon employment, during open enrollment periods, and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. For the 2013-14 fiscal year, 742 employees contributed a total of \$1,455,946 and 362 retirees contributed a total of \$1,382,824 to participate in the district's health insurance plan, and the District contributed \$2,993,271 toward the plan. Also, 198 dependents participated in the health insurance plan.

District personnel reconciled health insurance billings to current payroll records to ensure that insurance premiums were only for eligible employees and retirees. Also, for dependent insurance changes outside of open enrollment periods, employees and retirees provided evidence of dependents' eligibility for the changes. However, the District did not require employees and retirees purchasing health insurance for their dependents during open enrollment periods to provide documentation, such as birth certificates, evidencing the dependents' eligibility. Without verifying the eligibility of all dependents covered through the District's health insurance plan, there is an increased risk that dependents receiving insurance coverage may be ineligible participants.

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

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

Finding No. 8: Virtual Instruction Program Policies and Procedures

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

For the 2013-14 fiscal year, District records indicated that 6 VIP students were enrolled full-time and 24 VIP students were enrolled part-time; however, the District had not established comprehensive, written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Additionally, the lack of written VIP policies and procedures may have contributed to the following instances of noncompliance and control deficiencies:

- Section 1002.45(10), Florida Statutes, requires that school districts provide information to parents and students about their right to participate in a VIP. Further, 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 that various communication methods were used to provide information about the District's VIP to parents and students. Such communication methods included the District's Web site and brochures distributed to students and made available in local businesses. While these methods indicate efforts by District personnel to communicate with parents and students about the VIP for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents. 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.
- Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel. The District contracted with the Panhandle Area Educational Consortium (PAEC) through a franchise of Florida Virtual School, and with a FDOE-approved VIP provider, for VIP instructors. However, the District did not request or obtain confirmation that the 11 PAEC and 16 FDOE-approved VIP provider instructors obtained the required background screenings. Without effective controls to ensure that VIP provider instructors are subjected to required background screenings, there is an increased risk that instructors may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data and information technology resources.
- 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. However, the District did not maintain attendance records to evidence that students satisfied the statutorily required compulsory attendance requirements. Absent effective procedures to verify student attendance and records evidencing such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.
- Section 1002.45(3)(c), Florida Statutes, requires that each student enrolled in a VIP be provided with all necessary instructional materials. District personnel indicated that they relied upon the VIP provider to ensure that all necessary instructional materials were appropriately delivered to VIP students, without independently verifying delivery. Without procedures to verify receipt of all the necessary instructional materials, there is an increased risk that VIP students may not possess the materials necessary to successfully complete VIP course requirements.
- Our review of the District's contract with the FDOE-approved provider disclosed that the contract lacked the following necessary provisions, as follows:
 - The contract did not provide for the District to monitor the provider's compliance with contract terms. Without such provisions, the District may be limited in its ability to perform such monitoring. Such monitoring could include confirmation or verification that the provider protected the confidentiality of student records.
 - The contract did not include requirements for the provider to implement, maintain, and use appropriate, administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Educational Rights and Privacy Act, to maintain the confidentiality of educational records. Additionally, the contract did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other information technology controls may occur.
 - The contract did not include provisions for data quality requirements. The District's VIP provider maintains significant amounts of educational data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly, it is essential that accurate and

complete data maintained by the provider on behalf of the District be available in a timely manner. Inclusion of data quality requirements in the contract would help ensure that District expectations for the timeliness, accuracy, and completeness of educational data are clearly communicated to the provider.

Section 1002.45(2)(a)8.e., Florida Statutes, requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated with school districts. The District's contract with the FDOE-approved provider established student ratios ranging from 30:1 for grades kindergarten through 8 part-time to 250:1 for grades 9 through 12 elective courses. However, District records did not evidence how the District determined the reasonableness of the established ratios. Without documenting the reasonableness of established ratios, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should include appropriate action to remedy the noncompliance and control deficiencies identified above.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-171 except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2014-171, Finding No. 1	Audit Report No. 2013-167, Finding No. 1
5	Audit Report No. 2014-171, Finding No. 3	Audit Report No. 2013-167, Finding No. 3

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

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2014-171 (1)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Matching, Level of Effort, and Earmarking - Maintenance of Effort	The District did not have adequate procedures to monitor its compliance with the Special Education Cluster programs maintenance of effort requirement, resulting in a maintenance of effort shortfall and questioned costs of \$224,650.	Partially Corrected.	The District took corrective action; however, the grantor has not issued final determination with regard to the questioned costs.
2014-171 (2)	State Fiscal Stabilization Fund (SFSF) Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395) - Period of Availability	The District used Race-to-the-Top program funds for expenditures incurred outside the period of availability, resulting in \$10,278 of questioned costs.	Corrected.	The grantor sustained the finding but did not require the repayment of questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE



The School Board of Gadsden County

REGINALD C. JAMES
SUPERINTENDENT OF SCHOOLS

35 MARTIN LUTHER KING, JR. BLVD
QUINCY, FLORIDA 32361
TEL: (850) 627-9851
FAX: (850) 627-2760
<http://www.gcps.k12.fl.us>

March 12, 2015

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

Dear Mr. Martin:

Enclosed please find our responses for the updated preliminary and tentative findings that were provided to us for review on February 17, 2015. We want to express our sincere gratitude to you and for staff for their thorough and comprehensive review of our District's financial, federal, and operational functions for the fiscal year ended June 30, 2014.

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

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

Sincerely,

Reginald C. James
Superintendent of Schools

RCJ:ksf

AUDREY D. LEWIS
DISTRICT NO. 1
HAWANA, FL 32333

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

ISAAC SIMMONS, JR.
DISTRICT NO. 3
CHATTahoochee, FL 32334
GREENSBORO, FL 32330

CHARLIE D. FROST
DISTRICT NO. 4
GRETN, FL 32332
QUINCY, FL 32352

ROGER P. MITON
DISTRICT NO. 5
QUINCY, FL 32353

BOARD MEETS FOURTH TUESDAY OF EACH MONTH
EQUAL OPPORTUNITY EMPLOYER

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

SIGNIFICANT DEFICIENCY

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

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

District Response:

We concur with the audit finding. We appreciate the audit analysis discovering our process error in the allocation of tax revenues received. Business Office staff now understand how the allocation method is derived and will watch for any corrections needed in this process. We have also made journal corrections to adjust all errors to ensure proper recorded balances and transactions for impacted funds. The Assistant Superintendent for Business and Finance will also check future recordings to ensure continued compliance and, if the millage rate changes in future budgetary processes, will make sure appropriate changes in the allocation are made. As for the omission of the bus lease purchase proceeds and expenditures in the governmental funds, the Assistant Superintendent for Business and Finance will follow up with staff to ensure that entries are made and be mindful of this type of possible omission when compiling the Annual Financial Report.

Finding No. 2: During the 2013-14 fiscal year, the District's General Fund total assigned and unassigned fund balance declined 47 percent from \$2,198,251 to \$1,172,507 representing a fund balance reduction of \$1,025,744. Under these circumstances, the District has less resources for emergencies and unforeseen situations than other school districts of comparable size.

Recommendation: The Board and the Superintendent should closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

District Response:

We concur with the audit finding. In accordance with Section 1011.051, Florida Statutes, we notified the Commissioner of Education on December 3, 2013, that we expected that the District's General Fund total assigned and unassigned fund balance was anticipated to drop below 2 percent for the 2013-14 fiscal year. As part of our recovery plan, we anticipated receiving more in e-rate funds than were actually realized. As of the Annual Financial Report preparation, we believed our General Fund total assigned and unassigned fund balance was 3.3 percent of general fund revenue. However, due to an error in our tax revenues allocation, unknown to us at the time of financial statement preparation, an audit adjustment in the amount of \$212,654.41 decreased our General Fund balance as a percentage of General Fund revenue to 2.8 percent.

Although the overall General Fund revenues have increased or held fairly steady as illustrated in the table presented in Finding No. 2, our rural district has experienced declines in our General Fund's discretionary operating funding over the past several years that has had a cumulative effect on the General Fund's declining balance. We have begun long-range changes to reduce budgetary consumption. The Board is also considering school reconfigurations, ways to save on energy costs, and cost reductions when developing our staffing plan. We are optimistic that the economy is improving and that our financial position will improve in the not so distant future and we are mindful that we will need to undergo a recovery period before we can expand any spending when our discretionary operating revenues begin to increase.

Finding No. 3: The District needed to enhance its budgetary process.

Recommendation: The District should enhance its budgetary procedures to ensure that expenditures are

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

limited to budgeted amounts as required by State law and rules, which may help the District in monitoring its resources and improving the financial condition of the General Fund.

District Response:

We concur with the audit finding. Enhancements to the budgetary process and the monitoring of District resources to improve the financial condition of the General Fund and the overall operations of the District are a top priority of the Superintendent and the Board.

We intend to create a Budget Director position, effective in the 2015-16 fiscal year. This position will be in charge of all budgetary aspects, from developing the budget and required notifications to implementing the approved preliminary budget, updating and implementing the final approved budget, as well as monitoring the budget on an ongoing basis for transactions that occur during the fiscal year and present amendments for Board approval and implementation. This position will also help to improve the condition of the General Fund by reviewing District programs, program needs, and program revenue streams and suggest alternative spending plans needed to be made based on availability of funds.

In addition, a budget committee will be formed to review the budget process as well as staffing plans for the next fiscal period. This committee will be tasked with formulating a plan for the budget that includes establishing a portion of the General Fund revenues for a rainy day fund and reserves for adjustments to Florida Education Finance Program to ensure adequate funds are set aside, and a review of areas that need to be addressed to accomplish District goals and changes in direction set by the Legislative process. The Assistant Superintendent for Business and Finance will transition the new Budget Director into steering this committee next year while actively participating as a committee member. It is our vision that this process will help guide the District into fiscal recovery and enhance the operating effectiveness of the District long-term.

ADDITIONAL MATTERS

Finding No. 4: The Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Recommendation: The District should provide for routine review of required statements of financial interest by personnel responsible for making procurement decisions.

District Response:

We concur with the audit finding. We appreciate the audit analysis and suggestion to enhance our procedures to safeguard against conflicts of interest. We took immediate corrective action by training staff on how to view these documents on-line and review and consider these financial interest statements when making procurement decisions.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contract hours for adult general education classes to the Florida Department of Education.

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

District Response:

The inaccurate reporting of instructional contact hours was primarily due to turnover in the data entry position at Gadsden Technical Institute and corrective action has been taken.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

GADSDEN COUNTY DISTRICT SCHOOL BOARD
MANAGEMENT RESPONSE

Finding No. 6: Controls over monitoring school bus drivers could be enhanced.

Recommendation: The District should ensure that required background screenings are timely performed for all employees.

District Response:

We concur with the audit finding. We appreciate the audit analysis and suggestion to enhance our procedures to safeguard our students who are transported by the District. The Transportation Department is committed to the safety and well-being of our students. We have implemented procedures to actively monitor and ensure compliance by developing a *School Bus Operators Qualifications Evaluation Worksheet*. We will review the information obtained to monitor background screening requirements.

Finding No. 7: The District needed to enhance its procedures to require verification of eligibility of all dependents covered by the District's health insurance plan.

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

District Response:

We concur with the audit finding. In response to notifying the District of this audit recommendation, we implemented corrective action. Effective December 10, 2014, the benefits staff implemented our new procedure to collect proper verification to determine eligibility of dependents. The documents for active employees and their dependents will be filed in our Business Office's Insurance Department. Retiree documentation will be available upon request with the local health insurance agent.

Finding No. 8: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Recommendation: The District should develop and maintain comprehensive written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should include appropriate action to remedy the noncompliance and control deficiencies identified in Finding No. 8.

District Response:

We concur with the audit finding. The District will develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures will ensure written notification to all parents about student opportunities to participate in the VIP, documented verification that teachers who provide VIP services are appropriately certified and subject to required background screenings, documented verification that students enrolled in the VIP have complied with compulsory attendance requirements prescribed by law, and qualified students are provided computer resources. We will also review contracts with FDOE-approved providers to ensure that required provisions are included in future contracts. If needed, we will request contract modifications to update the contractual terms to include any omitted provisions.