

STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2018-177
March 2018

JEFFERSON COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2016-17 fiscal year, Marianne Arbulu served as Superintendent of Schools from 11-22-16, Al Cooksey served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Gladys Roann-Watson from 11-22-16, Chair from 3-21-17	1
Phil Barker through 11-21-16	1
Sandra Saunders, Vice Chair from 3-21-17	2
Shirley A. Washington, Chair through 11-21-16	3
Bill Brumfield, Chair from 11-22-16, through 3-20-17	4
Larry Halsey, Vice Chair through 11-21-16	4
Charles Boland, Vice Chair from 11-22-16, through 3-20-17	5

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 team leader was Craig J. Pohlmann, CPA, and the audit was supervised by Edward A. Waller, CPA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Manager, by e-mail at micahrodgers@aud.state.fl.us or by telephone at (850) 412-2905.

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JEFFERSON COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	Page No.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	13
Statement of Activities.....	14
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	23
Notes to Financial Statements	24
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds	48
Schedule of Funding Progress – Other Postemployment Benefits Plan	50
Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	50
Schedule of District Contributions – Florida Retirement System Pension Plan	50
Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	51
Schedule of District Contributions – Health Insurance Subsidy Pension Plan	51
Notes to Required Supplementary Information	51
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	53
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	54
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	56

JEFFERSON COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS (CONTINUED)

	Page No.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	59
ADDITIONAL MATTERS	60
PRIOR AUDIT FOLLOW-UP	67
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	68

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Jefferson County District School Board (District's) basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards. As noted in the Emphasis of Matter paragraph, the District's Board elected to close and reopen the District schools as one or more charter schools beginning with the 2017-18 school year.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Additional Matters

Finding AM 2017-001: District procedures did not effectively provide for timely general ledger journal entries and reconciliations of bank account balances to the general ledger cash account balances with reconciling items identified, thoroughly investigated, adequately documented, and resolved.

Finding AM 2017-002: District controls over the budgetary process continue to be deficient. These deficient controls contributed to the low District General Fund total assigned and unassigned fund balance of \$36,587 at June 30, 2017, or 0.5 percent of the total General Fund revenues for the 2016-17 fiscal year, which may not be sufficient to address normal contingencies.

Finding AM 2017-003: The District did not obtain the required actuarial valuation of the District Other Postemployment Benefits (OPEB) Plan to support the OPEB information reported in the annual financial report for the fiscal year ended June 30, 2017.

Finding AM 2017-004: As of February 2018, District personnel had not conducted physical inventory counts at 7 of the District's 15 cost centers within the previous 12 months. The acquisition costs for the tangible personal property assigned to those 7 cost centers totaled \$1.4 million.

Finding AM 2017-005: Although we requested, District records were not provided to evidence that, as of January 2018, the required comprehensive safety inspection had been conducted for any of the District's 65 educational and ancillary plant facilities since June 2014. Subsequent to our request, inspection reports dated October 2016 were provided to us in March 2018; however, District records did not evidence any consideration of the reports by District personnel or any efforts by the District to obtain Board approval of the reports.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster and Special Education Cluster 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 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 the District's major Federal programs;
- 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. 2017-193.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards, as of and for the fiscal year ended June 30, 2017. 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, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

AUDIT METHODOLOGY

We conducted our audit in accordance with 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County District School Board, as of and for the fiscal year ended June 30, 2017, 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 100 percent of the assets and 100 percent of the liabilities of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County District School Board, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note III. to the financial statements, the Jefferson County District School Board elected to close and reopen the District schools as three separate schools. The School Board entered into a 5-year agreement with a charter school management company to operate the three schools beginning with the 2017-18 school year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension 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 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**, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying **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 accompanying **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 dated March 22, 2018, 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 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 the effectiveness of the District's 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Jefferson 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, 2017. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-17 fiscal year are as follows:

- As of June 30, 2017, the assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources by \$27,569,703.99.
- In total, net position increased \$725,270.35, which represents a 2.7 percent increase over the 2015-16 fiscal year.
- As of June 30, 2017, the District's governmental funds reported combined fund balances of \$1,848,806.69, an increase of \$386,550.93 in comparison with the 2015-16 fiscal year.
- Capital assets, net of depreciation, decreased by \$338,825.21.
- General revenues total \$9,091,364.23 or 92 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$793,214.88, or 8 percent of all revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totaled \$570,880.19, which is \$189,193.96 more than the prior fiscal year balance. The General Fund unassigned fund balance was \$36,587.34, or 0.5 percent of total General Fund revenues, as compared to the prior year in which the unassigned fund balance was a deficit \$33,047.60, or negative 0.4 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of

operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

Fund Financial Statements

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Food Service Fund, Special Revenue – Other Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Capital Outlay and Debt Service Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund.

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 net pension liability and its 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, 2017, compared to net position as of June 30, 2016:

Net Position, End of Year

	Governmental Activities	
	6-30-17	6-30-16
Current and Other Assets	\$ 2,613,559.14	\$ 1,571,263.54
Capital Assets	30,422,856.81	30,761,682.02
Total Assets	33,036,415.95	32,332,945.56
Deferred Outflows of Resources	2,308,779.00	1,178,675.00
Long-Term Liabilities	6,131,878.51	5,375,938.32
Other Liabilities	764,752.45	206,016.60
Total Liabilities	6,896,630.96	5,581,954.92
Deferred Inflows of Resources	878,860.00	1,085,232.00
Net Position:		
Investment in Capital Assets	30,422,856.81	30,761,682.02
Restricted	1,790,209.38	1,458,395.00
Unrestricted (Deficit)	(4,643,362.20)	(5,375,643.38)
Total Net Position	\$ 27,569,703.99	\$ 26,844,433.64

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

A portion of the District's Net Position, \$1,790,209.38, represents resources that are subject to external restrictions on how they may be used.

The remaining deficit net position, \$4,643,362.20, reflects the shortfall that the District would have faced in the event that it would have had to liquidate all of its non-capital liabilities at June 30, 2017. The liabilities (claims) against the unrestricted assets include the pension liability of \$5,640,542 and the other postemployment benefits (OPEB) liability of \$369,791.

Due to the transition to charter school operations effective July 1, 2017, most of the terminal pay due to employees is presented as a current liability.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2017, and June 30, 2016, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-17	6-30-16
Program Revenues:		
Charges for Services	\$ 38,178.16	\$ 63,965.10
Operating Grants and Contributions	680,459.71	790,081.14
Capital Grants and Contributions	74,577.01	178,183.92
General Revenues:		
Property Taxes, Levied for Operational Purposes	3,223,080.50	3,453,123.47
Property Taxes, Levied for Capital Projects	911,910.69	910,251.82
Grants and Contributions Not Restricted to Specific Programs	4,455,329.94	5,095,782.28
Unrestricted Investment Earnings	1,715.14	9,364.11
Miscellaneous	499,327.96	243,553.61
Total Revenues	9,884,579.11	10,744,305.45
Functions/Program Expenses:		
Instruction	3,631,180.54	4,589,196.88
Student Support Services	128,170.08	181,056.75
Instructional Media Services	53,889.81	76,233.48
Instruction and Curriculum Development Services	265,796.13	270,751.48
Instructional Staff Training Services	277,303.28	142,996.62
Instruction-Related Technology	154,114.47	232,737.41
Board	420,850.09	294,312.04
General Administration	301,829.53	747,719.14
School Administration	457,344.07	633,212.45
Facilities Acquisition and Construction	260,363.38	258,044.92
Fiscal Services	259,734.15	225,440.39
Food Services	582,398.18	629,282.24
Central Services	6,691.43	22,099.38
Student Transportation Services	606,999.31	685,844.69
Operation of Plant	752,332.33	830,135.35
Maintenance of Plant	161,582.79	205,953.77
Administrative Technology Services	101,430.95	139,337.09
Unallocated Interest on Long-Term Debt	56.20	3,107.69
Unallocated Depreciation Expense	737,242.04	702,590.47
Total Functions/Program Expenses	9,159,308.76	10,870,052.24
Change in Net Position	725,270.35	(125,746.79)
Net Position - Beginning	26,844,433.64	26,970,180.43
Net Position - Ending	\$ 27,569,703.99	\$ 26,844,433.64

The largest revenue source is the State of Florida (38.5 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.

Grants and contributions not restricted to specific programs revenues decreased by \$640,452.34, or 12.6 percent, primarily due to a decrease in FEFP funding as a result of declining student enrollment.

Property tax revenues decreased by \$228,384.10, or 5.2 percent, as a result of a decrease in taxable assessed values and a 4.7 percent decrease in the total millage rate.

Instruction expenses represent 39.6 percent of total governmental expenses in the 2016-17 fiscal year. Instruction expenses decreased by \$958,016.34, or 20.9 percent, from the previous fiscal year due mainly to a reduction in staffing levels, resulting in a decrease in salaries and related benefits. In addition, both general administration and school administration expenses were similarly affected.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds increased by \$386,550.93 during the fiscal year to \$1,848,806.69 at June 30, 2017. Approximately 2 percent of this amount is unassigned fund balance, \$36,587.34, which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable or restricted to indicate that it is (1) not in spendable form (\$22,009.97) or (2) restricted for particular purposes (\$1,790,209.38).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$36,587.34, while the total fund balance is \$570,880.19. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balances to General Fund total revenues. The unassigned fund balance is 0.5 percent of the total General Fund revenues, while total fund balance represents 7.5 percent of total General Fund revenues.

The Special Revenue – Food Service Fund expenditures exceeded revenues by \$70,410.74. This decrease was due to a reduction in the number students within the District when compared to the previous fiscal year. The funding was mainly used for food and supplies.

The Special Revenue – Other Fund expenditures exceeded revenues by \$135,373.40 due primarily to reduced grant awards received in the current fiscal year arising from questioned costs in the previous fiscal year. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Capital Outlay and Debt Service Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund have total fund balances of \$30.46, \$311,654.82, \$742,007.74, and \$16,205.96, respectively. These funds are restricted for the acquisition, construction, and maintenance of capital assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant variances between the General Fund final amended budget and actual reported revenues or the General Fund final appropriations and the actual expenditures as disclosed in the other required supplementary information to the financial statements. During the fiscal year, the District's revenue and expenditure projections remained similar to original budgeted amounts.

CAPITAL ASSETS

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2017, is \$30,422,856.81 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual equipment and computer software. The total decrease in capital assets for the current fiscal year was 1.1 percent.

There were no major capital asset events for the 2016-17 fiscal year.

Additional information on the District's capital assets can be found in Notes I.F.3. and II.B. to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

On August 10, 2016, the Commissioner of Education declared that the District was in a state of financial emergency and, on August 12, 2016, the State Board of Education (SBE) appointed a Financial Emergency Board to provide support and financial oversight to the District.

On February 9, 2017, the Board approved a revised 2016-17 fiscal year Turnaround Option Plan (Plan) for the Jefferson County Elementary School and the Jefferson County Middle/High School, and the plan was submitted to the SBE on February 16, 2017, pursuant to Section 1008.33, Florida Statutes. According to the Plan, the Board selected the option to close and reopen the schools as one or more charter schools, each with a governing board, in accordance with Section 1002.33, Florida Statutes.

On February 16, 2017, the SBE approved the Plan, which included assurances that the Board would vote to turn over the day-to-day management of the schools to a charter school operator that had a proven track record of academic and financial performance; approve a charter school proposal to operate one or more charter schools that will serve grades K-12 beginning with the 2017-18 school year; and negotiate and execute an agreement with the charter school operator that describes the roles and responsibilities of the District and the charter school operator as they relate to transportation, food services, and other non-educational functions.

On April 18, 2017, the District entered into a 5-year agreement with Somerset Academy, Inc. to operate three separate schools: Jefferson County K-5, a Somerset School; Jefferson County 6-8, a Somerset School; and Jefferson County 9-12, a Somerset School. The schools are being operated at the location of the Jefferson County Middle/High in Monticello, Florida. Somerset Academy, Inc. has entered into a Charter School Educational Services and Support agreement with Academia Broward, LLC.

REQUESTS FOR INFORMATION

This 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 Superintendent of Schools, Jefferson County District School Board, 1490 West Washington Street, Monticello, Florida 32344.

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BASIC FINANCIAL STATEMENTS

Jefferson County District School Board Statement of Net Position June 30, 2017

	Governmental Activities
ASSETS	
Cash	\$ 1,852,306.94
Due from Other Agencies	739,242.23
Inventories	22,009.97
Capital Assets:	
Nondepreciable Capital Assets	1,044,597.18
Depreciable Capital Assets, Net	29,378,259.63
TOTAL ASSETS	33,036,415.95
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	2,308,779.00
LIABILITIES	
Accrued Salaries and Benefits	104,738.45
Payroll Deductions and Withholdings	406,341.06
Accounts Payable	111,043.94
Unearned Revenue	142,629.00
Long-Term Liabilities:	
Portion Due Within One Year	180,578.51
Portion Due After One Year	5,951,300.00
TOTAL LIABILITIES	6,896,630.96
DEFERRED INFLOWS OF RESOURCES	
Pensions	878,860.00
NET POSITION	
Investment in Capital Assets	30,422,856.81
Restricted for:	
State Required Carryover Programs	422,998.09
Workforce Development	76,152.00
Fuel Tax Refunds	13,132.79
Food Service	208,027.52
Capital Projects	1,069,898.98
Unrestricted (Deficit)	(4,643,362.20)
TOTAL NET POSITION	\$ 27,569,703.99

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

**Jefferson County District School Board
Statement of Activities
For the Fiscal Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 3,631,180.54	\$ 3,056.58	\$ -
Student Support Services	128,170.08	-	-
Instructional Media Services	53,889.81	-	-
Instruction and Curriculum Development Services	265,796.13	-	-
Instructional Staff Training Services	277,303.28	-	-
Instruction-Related Technology	154,114.47	-	-
Board	420,850.09	-	-
General Administration	301,829.53	-	-
School Administration	457,344.07	-	-
Facilities Acquisition and Construction	260,363.38	-	-
Fiscal Services	259,734.15	-	-
Food Services	582,398.18	31,054.98	504,980.71
Central Services	6,691.43	-	-
Student Transportation Services	606,999.31	4,066.60	175,479.00
Operation of Plant	752,332.33	-	-
Maintenance of Plant	161,582.79	-	-
Administrative Technology Services	101,430.95	-	-
Unallocated Interest on Long-Term Debt	56.20	-	-
Unallocated Depreciation Expense*	737,242.04	-	-
Total Governmental Activities	\$ 9,159,308.76	\$ 38,178.16	\$ 680,459.71

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
Capital Grants and Contributions	Governmental Activities	
\$ -	\$ (3,628,123.96)	
-	(128,170.08)	
-	(53,889.81)	
-	(265,796.13)	
-	(277,303.28)	
-	(154,114.47)	
-	(420,850.09)	
-	(301,829.53)	
-	(457,344.07)	
73,960.38	(186,403.00)	
-	(259,734.15)	
-	(46,362.49)	
-	(6,691.43)	
-	(427,453.71)	
-	(752,332.33)	
-	(161,582.79)	
-	(101,430.95)	
616.63	560.43	
-	(737,242.04)	
<u>\$ 74,577.01</u>	<u>(8,366,093.88)</u>	

3,223,080.50
911,910.69
4,455,329.94
1,715.14
<u>499,327.96</u>
9,091,364.23
725,270.35
<u>26,844,433.64</u>
<u>\$ 27,569,703.99</u>

**Jefferson County District School Board
Balance Sheet – Governmental Funds
June 30, 2017**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
ASSETS			
Cash	\$ 414,884.88	\$ 258,680.87	\$ 135,373.40
Due from Other Funds	1,165,466.57	33,248.86	286,683.47
Due from Other Agencies	173,421.65	-	416,468.28
Inventories	22,009.97	-	-
TOTAL ASSETS	\$ 1,775,783.07	\$ 291,929.73	\$ 838,525.15
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued Salaries and Benefits	\$ 104,738.45	\$ -	\$ -
Payroll Deductions and Withholdings	406,341.06	-	-
Accounts Payable	77,163.37	509.91	32,043.41
Unearned Revenue	-	-	-
Due to Other Funds	616,660.00	83,392.30	806,481.74
Total Liabilities	1,204,902.88	83,902.21	838,525.15
Fund Balances:			
Nonspendable:			
Inventories	22,009.97	-	-
Restricted for:			
State Required Carryover Programs	422,998.09	-	-
Workforce Development	76,152.00	-	-
Fuel Tax Refunds	13,132.79	-	-
Food Service	-	208,027.52	-
Capital Projects	-	-	-
Total Restricted Fund Balance	512,282.88	208,027.52	-
Unassigned Fund Balance	36,587.34	-	-
Total Fund Balances	570,880.19	208,027.52	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,775,783.07	\$ 291,929.73	\$ 838,525.15

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Capital Outlay and Debt Service Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Total Governmental Funds
\$ 30,358.13	\$ 161,648.77	\$ 678,966.83	\$ 172,394.06	\$ 1,852,306.94
-	179,032.26	297,104.65	39,649.46	2,001,185.27
71,888.00	666.81	6,056.49	70,741.00	739,242.23
-	-	-	-	22,009.97
<u>\$ 102,246.13</u>	<u>\$ 341,347.84</u>	<u>\$ 982,127.97</u>	<u>\$ 282,784.52</u>	<u>\$ 4,614,744.41</u>
\$ -	\$ -	\$ -	\$ -	\$ 104,738.45
-	-	-	-	406,341.06
-	-	1,327.25	-	111,043.94
71,888.00	-	-	70,741.00	142,629.00
<u>30,327.67</u>	<u>29,693.02</u>	<u>238,792.98</u>	<u>195,837.56</u>	<u>2,001,185.27</u>
<u>102,215.67</u>	<u>29,693.02</u>	<u>240,120.23</u>	<u>266,578.56</u>	<u>2,765,937.72</u>
-	-	-	-	22,009.97
-	-	-	-	422,998.09
-	-	-	-	76,152.00
-	-	-	-	13,132.79
-	-	-	-	208,027.52
<u>30.46</u>	<u>311,654.82</u>	<u>742,007.74</u>	<u>16,205.96</u>	<u>1,069,898.98</u>
<u>30.46</u>	<u>311,654.82</u>	<u>742,007.74</u>	<u>16,205.96</u>	<u>1,790,209.38</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,587.34</u>
<u>30.46</u>	<u>311,654.82</u>	<u>742,007.74</u>	<u>16,205.96</u>	<u>1,848,806.69</u>
<u>\$ 102,246.13</u>	<u>\$ 341,347.84</u>	<u>\$ 982,127.97</u>	<u>\$ 282,784.52</u>	<u>\$ 4,614,744.41</u>

**Jefferson County District School Board
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017**

Total Fund Balances - Governmental Funds	\$ 1,848,806.69
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	30,422,856.81
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Compensated Absences Payable	\$ (121,545.51)	
Net Pension Liability	(5,640,542.00)	
Other Postemployment Benefits Payable	(369,791.00)	(6,131,878.51)

The deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions	\$ 2,308,779.00	
Deferred Inflows Related to Pensions	(878,860.00)	1,429,919.00

Net Position - Governmental Activities	<u>\$ 27,569,703.99</u>
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The accompanying notes to financial statements are an integral part of this statement.

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**Jefferson County District School Board
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 53,106.33	\$ -	\$ -
Federal Through State and Local	106,717.71	494,905.71	756,629.64
State	3,721,468.15	10,075.00	-
Local:			
Property Taxes	3,223,080.50	-	-
Charges for Services - Food Service	-	31,054.98	-
Miscellaneous	475,160.62	1,306.27	-
Total Local Revenues	3,698,241.12	32,361.25	-
Total Revenues	7,579,533.31	537,341.96	756,629.64
Expenditures			
Current - Education:			
Instruction	3,480,385.68	-	450,310.66
Student Support Services	98,390.45	-	40,898.57
Instructional Media Services	59,489.68	-	-
Instruction and Curriculum Development Services	24,805.53	-	266,342.26
Instructional Staff Training Services	222,363.62	-	63,401.91
Instruction-Related Technology	167,111.66	-	-
Board	434,667.92	-	-
General Administration	381,608.72	-	44,395.41
School Administration	502,753.26	-	-
Facilities Acquisition and Construction	-	-	-
Fiscal Services	285,782.68	-	-
Food Services	-	607,752.70	-
Central Services	-	-	6,691.43
Student Transportation Services	525,062.08	-	19,962.80
Operation of Plant	768,716.42	-	-
Maintenance of Plant	174,587.00	-	-
Administrative Technology Services	108,119.13	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	40,267.96	-	-
Other Capital Outlay	145,405.49	-	-
Debt Service:			
Interest and Fiscal Charges	-	-	-
Total Expenditures	7,419,517.28	607,752.70	892,003.04
Excess (Deficiency) of Revenues Over Expenditures	160,016.03	(70,410.74)	(135,373.40)
Other Financing Sources (Uses)			
Transfers In	172,934.33	-	135,373.40
Loss Recoveries	25,010.00	-	-
Transfers Out	(168,766.40)	-	-
Total Other Financing Sources (Uses)	29,177.93	-	135,373.40
Net Change in Fund Balances	189,193.96	(70,410.74)	-
Fund Balances, Beginning	381,686.23	278,438.26	-
Fund Balances, Ending	\$ 570,880.19	\$ 208,027.52	\$ 0.00

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Capital Outlay and Debt Service Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 53,106.33
-	-	-	-	1,358,253.06
-	73,960.38	-	-	3,805,503.53
-	-	911,910.69	-	4,134,991.19
-	-	-	-	31,054.98
30.46	69.13	517.66	66.05	477,150.19
30.46	69.13	912,428.35	66.05	4,643,196.36
30.46	74,029.51	912,428.35	66.05	9,860,059.28
-	-	-	-	3,930,696.34
-	-	-	-	139,289.02
-	-	-	-	59,489.68
-	-	-	-	291,147.79
-	-	-	-	285,765.53
-	-	-	-	167,111.66
-	-	-	-	434,667.92
-	-	-	-	426,004.13
-	-	-	-	502,753.26
-	-	260,363.38	-	260,363.38
-	-	-	-	285,782.68
-	-	-	-	607,752.70
-	-	-	-	6,691.43
-	-	-	-	545,024.88
-	-	-	-	768,716.42
-	-	-	-	174,587.00
-	-	-	-	108,119.13
-	10,515.00	287,945.17	-	338,728.13
-	16,500.00	3,865.58	-	165,771.07
-	56.20	-	-	56.20
-	27,071.20	552,174.13	-	9,498,518.35
30.46	46,958.31	360,254.22	66.05	361,540.93
-	33,393.00	-	-	341,700.73
-	-	-	-	25,010.00
-	-	(172,934.33)	-	(341,700.73)
-	33,393.00	(172,934.33)	-	25,010.00
30.46	80,351.31	187,319.89	66.05	386,550.93
-	231,303.51	554,687.85	16,139.91	1,462,255.76
\$ 30.46	\$ 311,654.82	\$ 742,007.74	\$ 16,205.96	\$ 1,848,806.69

Jefferson 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, 2017

Net Change in Fund Balances - Governmental Funds **\$ 386,550.93**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (338,825.21)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 800,181.81

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. (15,792.00)

The prior year legal fees related to a litigation settlement are reported as expenditures in the governmental funds in the current year but were recognized as expenses in the government-wide statements in the prior year. 97,500.00

The prior year deferred inflows of resources are reported as revenue in the governmental funds in the current year but were recognized as revenue in the government-wide statements in the prior year. (491.18)

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

FRS Pension Contribution	\$	322,732.00	
HIS Pension Contribution		75,792.00	
FRS Pension Expense		(490,482.00)	
HIS Pension Expense		(111,896.00)	
			(203,854.00)

Change in Net Position - Governmental Activities **\$ 725,270.35**

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

**Jefferson County District School Board
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds
June 30, 2017**

	Agency Funds
ASSETS	
Cash	\$ 48,203.00
LIABILITIES	
Internal Accounts Payable	\$ 48,203.00

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

NOTES TO FINANCIAL STATEMENTS

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 Jefferson County School District (District). All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

B. Reporting Entity

The Jefferson 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 (FDOE), 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 Jefferson County.

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

C. Basis of Presentation: Government-Wide Financial Statements

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

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

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, each displayed in a separate column.

The District reports all funds as major governmental funds as follows:

- 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 – Food Service Fund – to account for financial resources generated by the Child Nutrition Program and used to operate the District's food service program.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Public Education Capital Outlay (PECO) and Debt Service Trust Fund to be used for facilities maintenance.
- Capital Projects – Capital Outlay and Debt Service Fund – to account for the District's allocation of the State of Florida's Capital Outlay and Debt Service Program funds to be used for construction of new schools, including capital equipment and additions to existing schools.
- 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, new and replacement equipment, and motor vehicle purchases.
- Capital Projects – Other Fund – to account for the financial resources generated by various State and local sources, including Classrooms First Program appropriations.

Additionally, the District reports the following fiduciary fund types:

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

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

E. Measurement Focus and 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 as soon as all eligibility requirements imposed by the provider have been met.

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 as soon as they are both 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. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

1. Cash

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

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

2. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Due to the charter school operations transition effective July 1, 2017, all District inventories, except fuel on hand stated at cost, were liquidated as of June 30, 2017.

3. 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 acquisition value at the date of donation.

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

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	10 - 35 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

4. Pensions

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are 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, 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 Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*,

represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has one item that qualifies for reporting in this category, the deferred outflow of resources related to pensions, which is discussed in a subsequent note.

In addition to liabilities, the statement of net 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, the deferred inflows of resources related to pensions, which are discussed in a subsequent note.

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 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 reported no committed fund balances at June 30, 2017.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by approval of the annual financial report, authorized the assignment of fund balance. The Board may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The District reported no assigned fund balances at June 30, 2017.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE 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 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as PECO money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE.

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

3. District Property Taxes

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

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

The Board adopted the 2016 tax levy on September 6, 2016. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Jefferson 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.

B. 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	\$ 1,044,597.18	\$ -	\$ -	\$ 1,044,597.18
Construction in Progress	94,448.00	-	94,448.00	-
Total Capital Assets Not Being Depreciated	1,139,045.18	-	94,448.00	1,044,597.18
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,056,982.73	-	-	1,056,982.73
Buildings and Fixed Equipment	36,784,574.82	433,176.13	-	37,217,750.95
Furniture, Fixtures, and Equipment	2,906,056.69	148,008.90	-	3,054,065.59
Motor Vehicles	1,901,582.32	-	-	1,901,582.32
Audio Visual Materials and Computer Software	343,844.17	17,762.17	-	361,606.34
Total Capital Assets Being Depreciated	42,993,040.73	598,947.20	-	43,591,987.93
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	542,638.51	21,876.64	-	564,515.15
Buildings and Fixed Equipment	8,537,306.33	523,003.91	-	9,060,310.24
Furniture, Fixtures, and Equipment	2,424,372.07	173,725.37	-	2,598,097.44
Motor Vehicles	1,566,145.35	106,082.37	-	1,672,227.72
Audio Visual Materials and Computer Software	299,941.63	18,636.12	-	318,577.75
Total Accumulated Depreciation	13,370,403.89	843,324.41	-	14,213,728.30
Total Capital Assets Being Depreciated, Net	29,622,636.84	(244,377.21)	-	29,378,259.63
Governmental Activities Capital Assets, Net	\$ 30,761,682.02	\$ (244,377.21)	\$ 94,448.00	\$ 30,422,856.81

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 106,082.37
Unallocated	737,242.04
Total Depreciation Expense - Governmental Activities	<u>\$ 843,324.41</u>

C. Retirement Plans

1. FRS – Defined Benefit Pension Plans

General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered 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. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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 Web site (www.dms.myflorida.com).

The District's FRS and HIS pension expense totaled \$602,378 for the fiscal year ended June 30, 2017.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are:

- *Regular* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers* – Members who hold specified elective offices in local government.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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. Employees enrolled in the Plan 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 to eligible participants.

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 participating 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. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>Percent Value</u>
Regular members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Elected County Officers	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Elected County Officers	3.00	42.47
DROP – Applicable to Members from All of the Above Classes	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The District's contributions to the Plan totaled \$322,732 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a liability of \$3,592,903 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.014229271 percent, which was a decrease of 0.002434987 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the Plan pension expense of \$490,482. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 275,100	\$ 33,452
Change of assumptions	217,360	-
Net difference between projected and actual earnings on FRS pension plan investments	928,722	-
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	166,711	522,819
District FRS contributions subsequent to the measurement date	322,732	-
Total	\$ 1,910,625	\$ 556,271

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$322,732, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	\$ 133,795
2019	133,795
2020	495,868
2021	285,903
2022	(14,187)
Thereafter	(3,552)
Total	\$ 1,031,622

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and

best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.6 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2016 valuation was updated from 7.65 percent to 7.6 percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.6 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.6 percent) or 1 percentage point higher (8.6 percent) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
District's proportionate share of the net pension liability	\$ 6,614,776	\$ 3,592,903	\$ 1,077,591

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of

State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Federal Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$75,792 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a net pension liability of \$2,047,639 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.017569385 percent, which was a decrease of 0.001529637 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the HIS Plan pension expense of \$111,896. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 4,664
Change of assumptions	321,327	-
Net difference between projected and actual earnings on HIS pension plan investments	1,035	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	-	317,925
District contributions subsequent to the measurement date	75,792	-
Total	\$ 398,154	\$ 322,589

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$75,792, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ (1,347)
2019	(1,347)
2020	(1,544)
2021	(1,639)
2022	(5,389)
Thereafter	11,039
Total	\$ (227)

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis,

the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2016 valuation was updated from 3.8 percent to 2.85 percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
District's proportionate share of the net pension liability	\$ 2,349,107	\$ 2,047,639	\$ 1,797,437

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

2. FRS – Defined Contribution Pension Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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 the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular and Elected County Officers), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Elected County Officers	11.34

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings, regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled \$29,908.70 for the fiscal year ended June 30, 2017.

D. 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 coverages. 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 retiree healthcare costs are generally greater than active employee healthcare costs. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action

from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 13 retirees received other postemployment benefits. The District provided required contributions of \$60,651 toward the annual OPEB cost, net of retiree contributions totaling \$117,619, which represents 3.2 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for 1 year)	\$ 23,610
Amortization of Unfunded Actuarial Accrued Liability	98,209
Annual Required Contribution	121,819
Interest on Net OPEB Obligation	10,992
Adjustment to Annual Required Contribution	(56,368)
Annual OPEB Cost (Expense)	76,443
Contribution Toward the OPEB Cost	(60,651)
Increase in Net OPEB Obligation	15,792
Net OPEB Obligation, Beginning of Year	353,999
Net OPEB Obligation, End of Year	\$ 369,791

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, 2017, and the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 73,905	83.2%	\$ 338,207
2015-16	76,443	79.3%	353,999
2016-17	76,443	79.3%	369,791

Funded Status and Funding Progress. As of October 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was \$561,656, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$561,656 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$3,733,633, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.04 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, mortality, and the healthcare cost trend. 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 Schedule of Funding Progress immediately following the notes to financial statements as required supplementary information, 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, 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.

The District's OPEB actuarial valuation as of October 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2017, and to estimate the District's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.25 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 3.25 percent per year, and an annual healthcare cost trend rate of 7 percent initially beginning January 1, 2016, gradually reduced to 4.24 percent beginning January 1, 2040. The investment rate of return and payroll growth rate include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 5-year period.

E. 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 fiscal year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2017:

Major Funds		
	Capital Projects - Local Capital Improvement	Total Governmental Funds
General		
\$ 2,724.40	\$ 119,034.00	\$ 121,758.40

F. Risk Management Programs

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

Employee group health and hospitalization 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 3 fiscal years.

G. Long-Term Liabilities

1. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Compensated Absences Payable	\$ 921,727.32	\$ 330,683.78	\$ 1,130,865.59	\$ 121,545.51	\$ 121,545.51
Net Pension Liability	4,100,212.00	3,380,637.00	1,840,307.00	5,640,542.00	59,033.00
Other Postemployment Benefits Payable	353,999.00	76,443.00	60,651.00	369,791.00	-
Total Governmental Activities	\$ 5,375,938.32	\$ 3,787,763.78	\$ 3,031,823.59	\$ 6,131,878.51	\$ 180,578.51

For the governmental activities, compensated absences, pensions, and other postemployment benefits are generally liquidated with resources of the General Fund. Due to the nature of the liabilities, there are no amounts due in one year for other postemployment benefits.

H. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in Note I.F.10., fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

I. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 1,165,466.57	\$ 616,660.00
Special Revenue:		
Food Service	33,248.86	83,392.30
Other	286,683.47	806,481.74
Capital Projects:		
Public Education Capital Outlay	-	30,327.67
Capital Outlay and Debt Service	179,032.26	29,693.02
Local Capital Improvement	297,104.65	238,792.98
Other	39,649.46	195,837.56
Total	\$ 2,001,185.27	\$ 2,001,185.27

The interfund receivables and payables represent temporary loans to cover anticipated deficit cash balances in fund accounts and to cover expenditures incurred. These amounts are expected to be repaid within 1 year.

J. Revenues

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2016-17 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 2,619,814.00
Categorical Educational Program - Class Size Reduction	746,617.00
Workforce Development Program	86,353.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	72,746.19
School Recognition	32,866.00
Food Service Supplement	10,075.00
Miscellaneous	237,032.34
Total	\$ 3,805,503.53

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2016 tax roll for the 2016-17 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
General Fund		
Nonvoted School Tax:		
Required Local Effort	4.602	\$ 2,892,611
Basic Discretionary Local Effort	0.748	470,159
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.500	942,833
Total	<u>6.850</u>	<u>\$ 4,305,603</u>

K. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 172,934.33	\$ 168,766.40
Special Revenue:		
Other	135,373.40	-
Capital Projects:		
Capital Outlay and Debt Service	33,393.00	-
Local Capital Improvement	-	172,934.33
Total	<u>\$ 341,700.73</u>	<u>\$ 341,700.73</u>

The transfer to the General Fund was made to reimburse maintenance costs. The transfers to the Special Revenue – Other Fund and the Capital Projects – Capital Outlay and Debt Service Fund were made for repayment of prior audit questioned costs.

III. SUBSEQUENT EVENTS

On February 9, 2017, the Board approved a revised 2016-17 fiscal year Turnaround Option Plan (Plan) for the Jefferson County Elementary School and the Jefferson County Middle/High School, and the plan was submitted to the SBE on February 16, 2017, pursuant to Section 1008.33, Florida Statutes. According to the Plan, the Board selected the option to close and reopen the schools as one or more charter schools, each with a governing board, in accordance with Section 1002.33, Florida Statutes. On April 18, 2017, the School Board entered into a 5-year agreement with Somerset Academy, Inc. (Somerset) to turn over day-to-day operations of the District's schools effective July 1, 2017, to operate three separate schools at the location of the Jefferson County Middle/High in Monticello, Florida:

- Jefferson County K-5, a Somerset School
- Jefferson County 6-8, a Somerset School
- Jefferson County 9-12, a Somerset School

As of July 1, 2017, the only employees of the School Board included the elected Superintendent and the District's Transportation Department personnel, who had contracted with Somerset to provide daily transportation for the students attending the Somerset Schools. At a Board meeting on August 14, 2017, the School Board voted to abolish their Transportation Department and in a contract dated October 24, 2017, elected to lease the District's Transportation fleet, facility, and equipment to Somerset, effective August 1, 2017.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule General and Major Special Revenue Funds For the Fiscal Year Ended June 30, 2017

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 54,000.00	\$ 142,981.53	\$ 53,106.33	\$ (89,875.20)
Federal Through State and Local	80,000.00	106,717.71	106,717.71	-
State	3,853,357.00	3,721,468.15	3,721,468.15	-
Local:				
Property Taxes	3,128,310.00	3,223,080.50	3,223,080.50	-
Charges for Services - Food Service	-	-	-	-
Miscellaneous	231,300.00	385,285.42	475,160.62	89,875.20
Total Local Revenues	3,359,610.00	3,608,365.92	3,698,241.12	89,875.20
Total Revenues	7,346,967.00	7,579,533.31	7,579,533.31	-
Expenditures				
Current - Education:				
Instruction	3,274,126.72	3,480,385.68	3,480,385.68	-
Student Support Services	154,918.00	98,390.45	98,390.45	-
Instructional Media Services	49,035.00	59,489.68	59,489.68	-
Instruction and Curriculum Development Services	99,723.00	24,805.53	24,805.53	-
Instructional Staff Training Services	195,325.00	222,363.62	222,363.62	-
Instruction-Related Technology	674,564.00	167,111.66	167,111.66	-
Board	341,350.00	434,667.92	434,667.92	-
General Administration	396,909.00	381,608.72	381,608.72	-
School Administration	568,301.00	502,753.26	502,753.26	-
Fiscal Services	222,061.00	285,782.68	285,782.68	-
Food Services	-	-	-	-
Central Services	-	-	-	-
Student Transportation Services	495,155.00	646,516.59	525,062.08	121,454.51
Operation of Plant	615,429.00	768,716.42	768,716.42	-
Maintenance of Plant	203,373.00	174,587.00	174,587.00	-
Administrative Technology Services	136,468.00	108,119.13	108,119.13	-
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	40,267.96	40,267.96	-
Other Capital Outlay	-	145,405.49	145,405.49	-
Total Expenditures	7,426,737.72	7,540,971.79	7,419,517.28	121,454.51
Excess (Deficiency) of Revenues Over Expenditures	(79,770.72)	38,561.52	160,016.03	121,454.51
Other Financing Sources (Uses)				
Transfers In	200,000.00	172,934.33	172,934.33	-
Loss Recoveries	-	25,010.00	25,010.00	-
Transfers Out	-	(33,393.00)	(168,766.40)	(135,373.40)
Total Other Financing Sources (Uses)	200,000.00	164,551.33	29,177.93	(135,373.40)
Net Change in Fund Balances	120,229.28	203,112.85	189,193.96	(13,918.89)
Fund Balances, Beginning	526,311.00	381,686.23	381,686.23	-
Fund Balances, Ending	\$ 646,540.28	\$ 584,799.08	\$ 570,880.19	\$ (13,918.89)

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
629,350.00	494,905.71	494,905.71	-	1,114,464.56	892,003.04	756,629.64	(135,373.40)
11,842.00	10,075.00	10,075.00	-	-	-	-	-
-	-	-	-	-	-	-	-
31,000.00	31,054.98	31,054.98	-	-	-	-	-
950.00	1,306.27	1,306.27	-	-	-	-	-
31,950.00	32,361.25	32,361.25	-	-	-	-	-
673,142.00	537,341.96	537,341.96	-	1,114,464.56	892,003.04	756,629.64	(135,373.40)
-	-	-	-	544,447.59	450,310.66	450,310.66	-
-	-	-	-	111,775.84	40,898.57	40,898.57	-
-	-	-	-	-	-	-	-
-	-	-	-	167,548.45	266,342.26	266,342.26	-
-	-	-	-	121,862.04	63,401.91	63,401.91	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	114,289.16	44,395.41	44,395.41	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
632,668.00	607,752.70	607,752.70	-	-	-	-	-
-	-	-	-	21,714.76	6,691.43	6,691.43	-
-	-	-	-	32,826.72	19,962.80	19,962.80	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
632,668.00	607,752.70	607,752.70	-	1,114,464.56	892,003.04	892,003.04	-
40,474.00	(70,410.74)	(70,410.74)	-	-	-	(135,373.40)	(135,373.40)
-	-	-	-	-	-	135,373.40	135,373.40
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	135,373.40	135,373.40
40,474.00	(70,410.74)	(70,410.74)	-	-	-	-	-
217,463.75	278,438.26	278,438.26	-	-	-	-	-
\$ 257,937.75	\$ 208,027.52	\$ 208,027.52	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**Schedule of Funding Progress –
Other Postemployment Benefits Plan**

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (2) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/10	\$ -	\$ 693,107	\$ 693,107	0.0%	\$ 3,306,690	20.96%
10/01/12	-	507,482	507,482	0.0%	2,966,564	17.11%
10/01/14	-	561,656	561,656	0.0%	3,733,633	15.04%

Notes: (1) The District did not obtain an actuarial valuation to support the other postemployment benefits liability at June 30, 2017.

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

**Schedule of the District's Proportionate Share
of the Net Pension Liability –
Florida Retirement System Pension Plan (1)**

	2016	2015	2014	2013
District's proportion of the FRS net pension liability	0.014229271%	0.016664258%	0.018856390%	0.017007561%
District's proportionate share of the FRS net pension liability	\$ 3,592,903	\$ 2,152,412	\$ 1,150,517	\$ 2,927,758
District's covered payroll	\$ 5,453,655	\$ 5,794,332	\$ 6,478,434	\$ 6,446,075
District's proportionate share of the FRS net pension liability as a percentage of its covered payroll	65.88%	37.15%	17.76%	45.42%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –
Florida Retirement System Pension Plan (1)**

	2017	2016	2015	2014
Contractually required FRS contribution	\$ 322,732	\$ 347,003	\$ 406,289	\$ 413,035
FRS contributions in relation to the contractually required contribution	(322,732)	(347,003)	(406,289)	(413,035)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 4,564,860	\$ 5,453,655	\$ 5,794,332	\$ 6,478,434
FRS contributions as a percentage of covered payroll	7.07%	6.36%	7.01%	6.38%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of the District's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan (1)**

	2016	2015	2014	2013
District's proportion of the HIS net pension liability	0.017569385%	0.019099022%	0.021769779%	0.022171123%
District's proportionate share of the HIS net pension liability	\$ 2,047,639	\$ 1,947,800	\$ 2,035,527	\$ 1,930,288
District's covered payroll	\$ 5,453,655	\$ 5,794,332	\$ 6,478,434	\$ 6,446,075
District's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.55%	33.62%	31.42%	29.95%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –
Health Insurance Subsidy Pension Plan (1)**

	2017	2016	2015	2014
Contractually required HIS contribution	\$ 75,792	\$ 90,054	\$ 73,008	\$ 74,576
HIS contributions in relation to the contractually required contribution	(75,792)	(90,054)	(73,008)	(74,576)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 4,564,860	\$ 5,453,655	\$ 5,794,332	\$ 6,478,434
HIS contributions as a percentage of covered payroll	1.66%	1.65%	1.26%	1.15%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgetary Basis of Accounting

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

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

fiscal year end and encumbrances outstanding are honored from the subsequent year's appropriations.

2. Schedule of Funding Progress – Other Postemployment Benefits Plan

The October 1, 2014, unfunded actuarial accrued liability of \$561,656 was significantly higher than the October 1, 2012, liability of \$507,482 as a result of the benefit changes and other changes in liabilities and costs as discussed below:

- *Population Changes:* The number of enrolled retirees currently receiving postemployment health benefits decreased from 17 in the previous valuation to 13 in the current evaluation. At the same time, the number of active employees eligible for future postemployment benefits decreased from 121 to 107. This change had a decreasing effect on cost and liability.
- *Initial Cost of Coverage:* Total cost of coverage increased from \$516 per employee per month (as expected from the year beginning October 1, 2012) to \$568 per employee per month for the year beginning October 1, 2014. This is lower than the projected \$585 per employee per month. This change had an increasing effect on cost and liability.
- *Medical Trend Assumptions:* Revisions were made in the assumed trend for medical and prescription cost increases. In the October 1, 2012, valuation, the trends for costs and premiums were assumed to be 7.5 percent for each year beginning January 1, 2015, with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. The trends for costs and premiums were revised from 7 percent beginning January 1, 2016, then declining over a 25-year period to the ultimate level of 4.24 percent, increasing cost and liability.
- *Reflecting Provisions of the Affordable Care Act:* Revisions were made in the assumed increase in the cost of coverage due to the Excise Tax on High-Cost Employer Health Plans. In the October 1, 2012, valuation, it was estimated that the excise tax would result in a 0.39 percent increase in the cost of coverage for the plan year 2035 and all subsequent years. The estimates in the cost of coverage were revised to reflect a 0.17 percent increase in the cost of coverage for the plan year 2033 and all subsequent years, in addition to the 4.63 percent medical inflation assumed for that year for a total increase of 4.8 percent over the 2032 plan year. This change has the effect of decreasing cost and liability.

3. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.6 percent, and the active member mortality assumption was updated.

4. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal bond rate used to determine total pension liability was decreased from 3.8 percent to 2.85 percent.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Jefferson County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass - Through Entity Identifying Number	Total Expenditures
Clustered			
Child Nutrition Cluster:			
United States Department of Agriculture:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	17002	\$ 139,748.16
National School Lunch Program	10.555	17001, 17003	350,425.44
Summer Food Service Program for Children	10.559	17006, 17007	4,732.11
Total Child Nutrition Cluster			494,905.71
Special Education Cluster:			
United States Department of Education:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	298,324.21
Special Education - Preschool Grants	84.173	267	44,259.23
Total Special Education Cluster			342,583.44
Not Clustered			
United States Department of Defense:			
Army Junior Reserve Officers Training Corps	12.UNK	N/A	25,000.00
United States Department of Education:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 226	451,000.50
Career and Technical Education - Basic Grants to States	84.048	161	19,875.90
Twenty-First Century Community Learning Centers	84.287	244	6,005.08
Rural Education	84.358	110	16,604.59
Improving Teacher Quality State Grants	84.367	224	55,933.53
Total United States Department of Education			549,419.60
Total Expenditures of Federal Awards			\$ 1,411,908.75

The notes below are an integral part of this schedule.

- Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Jefferson County District School Board under programs of the Federal Government for the fiscal year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.
- (2) Summary of Significant Accounting Policies. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.



Sherrill F. Norman, CPA
Auditor General

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County District School Board, as of and for the fiscal year ended June 30, 2017, 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 22, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 identified certain additional matter findings which are described on pages 60 through 67.

District's Responses to Findings

The District's responses to the findings identified in our audit are included as District Response in Findings AM 2017-001 through AM 2017-005. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report 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 communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 22, 2018



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the Jefferson County District School Board's compliance with the types of compliance requirements described in the *OMB 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, 2017. The District's major Federal programs are identified in **SECTION I – SUMMARY OF AUDITOR'S RESULTS** of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 a 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 a 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name "Sherrill" and last name "Norman" clearly legible, and "F." as a middle initial.

Sherrill F. Norman, CPA
Tallahassee, Florida
March 22, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major Federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major Federal programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters are reported.

ADDITIONAL MATTERS

BANK ACCOUNT RECONCILIATIONS

Finding Number	AM 2017-001
Opinion Units	Governmental Activities, Major Funds: General Fund, Special Revenue – Food Service Fund, Special Revenue – Other Fund, Capital Projects – Public Education Capital Outlay, Capital Projects – Capital Outlay and Debt Service (CO&DS) Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund.
Financial Statements	
Account Titles	Cash
Adjustment Amounts	None
Statistically Valid Sample	Not Applicable
Prior Year Finding	Report No. 2017-193, Finding 3; and Report No. 2016-169, Finding 2.
Finding	District procedures did not effectively provide for timely bank account reconciliations.
Criteria	Effective internal controls require that reconciliations of bank account balances to general ledger control accounts be performed on a timely, routine basis. Properly prepared bank account reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, promptly detect and correct unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.
Condition	At June 30, 2017, the District's general ledger cash account balances totaled \$1.9 million. During the 2016-17 fiscal year, the District maintained eight bank accounts and District personnel used an electronic file of receipts and disbursements (i.e., cash book) to monitor cash balances and cash needs. However, District procedures did not provide for reconciliations of bank account balances to general ledger cash account balances during the 2016-17 fiscal year. In August 2017, a certified public accounting (CPA) firm was contracted to prepare the District's bank account reconciliations for all 12 months of the 2016-17 fiscal year and to propose necessary general ledger adjusting entries. Our examination of District records and discussions with District personnel disclosed that the CPA firm, as of October 2017, had reconciled the bank account and cash book balances and prepared reconciliations for all 12 months of the 2016-17 fiscal year. In addition, according to FDOE and CPA firm personnel, the CPA firm proposed several necessary general ledger adjusting entries that the District made for unrecorded transactions.
Cause	According to District personnel, the lack of bank reconciliations and adjusting entries was mainly due to time constraints associated with transitioning to charter school management and budgetary mandates.
Effect	Absent effective procedures for the timely preparation of bank account reconciliations and general ledger journal entries, there is an increased risk that any cash transaction errors or fraud that may occur will not be timely detected. Additionally, without such procedures, the reliability of the general ledger financial information throughout the year and the Board's ability to effectively monitor the District's financial position (as discussed in Finding AM 2017-002) is diminished.

Recommendation	The District should enhance procedures to ensure that timely bank account reconciliations and general ledger journal entries are performed.
District Response	The District concurs with this finding. This task did not progress due to other priorities – a mandated focus on budget improvement, the schools consolidation, and the charter implementation. In June 30, 2017, the District lost all staff along with all of their institutional knowledge. In spite of these factors, the District has made modest progress as it consolidated seven active bank accounts down to three for improved control, and completed bank reconciliation of one of the three remaining accounts. The District will complete reconciling the remaining two accounts, and it will follow a newly established a monthly process to prevent similar findings in the future. While the District does not have a CFO or any financial personnel on staff, we are working with the FLDOE to contract with a qualified consultant to provide assistance and oversight in the maintenance and preparation of our budgetary and financial records.
District Contact and Telephone Number	Marianne Arbulu, Superintendent (850) 342-0100

BUDGETARY CONTROLS AND FINANCIAL CONDITION

Finding Number	AM 2017-002
Opinion Unit	General Fund.
Financial Statements	
Account Titles	Fund Balance: Assigned and Unassigned
Adjustment Amounts	Not Applicable
Statistically Valid Sample	Not Applicable
Prior Year Finding	Audit Report No. 2017-193, Finding 1; and Audit Report No. 2016-169, Findings 3 and 4.
Finding	District controls over the budgetary process continued to be deficient. These deficient controls contributed to the low District General Fund total assigned and unassigned fund balance of \$36,587 at June 30, 2017, or 0.5 percent of total General Fund revenues, which may not be sufficient to address normal contingencies. On August 10, 2016, the Commissioner of Education declared that the District was in a state of financial emergency.
Criteria	Sections 1011.02, 1011.03, and 1011.05, Florida Statutes, prescribe elements of the District's budgetary process and provide 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 per functions, if the Board approves the expenditures and amends the budget within the timelines established by the policies. State Board of Education Rule 6A-1.007, Florida Administrative Code, requires the Superintendent and Board to take whatever action is necessary during the fiscal year to keep expenditures and obligations within the budgeted income. Board Policy 6.106, <i>Procedures for Amending Budget</i>, allows expenditures to exceed budgetary amounts within a fund at the function level provided that the Board approves such expenditures and amends the budget within 35 days of the date in which the District incurred the expenditures. An established budget process consists of activities that encompass the development, implementation, and evaluation of a plan to allocate scarce available resources for the provision of services, capital assets, and to meet financial obligations. The budget process should provide for appropriate

approvals and incorporate a mechanism for adjusting or amending the budget during the budget period should unforeseen events require changes to the original budget plan. Procedures for properly monitoring the budget and for making adjustments to meet changing financial circumstances are necessary to mitigate the risk that expenditures may exceed available resources.

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 appropriations by the Board, while the total remaining fund balance (i.e., assigned and unassigned fund balance accounts) is designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions of fund balance represent the amount that may be used with the most flexibility for emergencies and unforeseen situations.

Section 1011.051, Florida Statutes, requires the District to 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 total ending fund balance classified as assigned and unassigned fund balance in the District's approved operating budget as a percentage 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.

Section 218.503(1), Florida Statutes, provides that district school boards shall be subject to review and oversight by the Commissioner of Education and, Section 218.503(3), Florida Statutes, provides for the Commissioner to determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition. If State assistance is needed, the district school board is considered to be in a state of financial emergency.

Pursuant to Sections 218.50 through 218.504, Florida Statutes, the Commissioner has authority to implement measures to assist the district school board in resolving the financial emergency. Such measures may include, for example, establishing a financial emergency board to oversee the activities of the district school board and consulting with other governmental entities for the consolidation of all administrative direction and support services.

Condition

As similarly noted in our report No. 2017-193, our examination of the District records supporting the District budgetary process and related financial condition for the 2016-17 fiscal year disclosed that:

- On August 10, 2016, the Commissioner of Education declared the District to be in a state of financial emergency and approved a three-member Financial Emergency Board to provide support and financial oversight to the District.
- As part of the financial oversight to the District, the Financial Emergency Board required the District to submit a 2016-17 fiscal year operating budget for approval.
- On October 17, 2016, the School Board approved a General Fund operating budget that, while positive, was below the 3 percent statutory threshold for notifying the School Board and the FDOE.
- At its November 15, 2016, meeting, the Financial Emergency Board voted to reject the District's proposed budget, and to direct the District to adopt a

budget that provided for a minimum unassigned General Fund balance of 3 percent based on General Fund revenues.

- On November 28, 2016, the School Board approved an amended operating budget to comply with the Financial Emergency Board's directive.
- At its December 7, 2016, meeting, the Financial Emergency Board again declined to approve the School Board's amended operating budget citing certain questioned expenditures and the inability to understand and monitor the District's budget due to the lack of detail or documentation for items noted in the proposed amended operating budget.
- Notwithstanding the District's fiscal recovery plan and a positive fund balance, the District's financial condition ratio remained below 3 percent at June 30, 2017. A summary of the General Fund financial condition ratios for the past 3 fiscal years is shown in the following table.

Financial Condition Ratios

For the Fiscal Years Ended June 30, 2015, 2016, and 2017

Fiscal Year Ended June 30	Total Assigned and Unassigned Fund Balance (A)	Total General Fund Revenues (B)	Financial Condition Ratio (A)/(B)	Unweighted FTE
2015	(242,542)	8,024,152	(3.02)%	858
2016	(33,048)	7,763,107	(0.43)%	801
2017	36,587	7,579,533	0.48%	717

Cause

After December 7, 2016, the School Board provided no subsequent amended operating budgets to the Financial Emergency Board for approval but continued to operate pursuant to the School Board-adopted operating budget during the 2016-17 fiscal year.

Effect

Without properly monitoring and amending the budget to meet changing financial circumstances, the District's ability to meet current financial obligations could be hindered. Further, absent Financial Emergency Board approval of the operating budget, the effectiveness of the Financial Emergency Board's involvement in, and endorsement of, the District budgeting process is limited.

Recommendation

The School Board, in conjunction with the Financial Emergency Board, the Superintendent, and the charter school organization selected to manage District school operations, should enhance budgetary procedures by closely monitoring District activities to improve the fund balance maintained in the General Fund.

District Response

The District concurs with this finding. While the District did not achieve a three percent unassigned fund balance at year-end, it did however, make considerable gains as reflected in the report. The District will continue to monitor expenditures for additional improvement in the unassigned fund balance, and improve processes for budget amendments. While the District does not have a CFO or any financial personnel on staff, we are working with the FLDOE to contract with a qualified consultant to provide assistance and oversight in the maintenance and preparation of our budgetary and financial records.

District Contact and Telephone Number

Marianne Arbulu, Superintendent
(850) 342-0100

OTHER POSTEMPLOYMENT BENEFITS REPORTING

Finding Number	AM 2017-003
Opinion Unit	Governmental Activities
Financial Statements	
Account Titles	Other Postemployment Benefits (OPEB) Payable
Adjustment Amounts	Not Applicable
Statistically Valid Sample	Not Applicable
Prior Year Finding	Not Applicable
Finding	The District did not obtain the required actuarial valuation of the District OPEB Plan to support OPEB information reported in the annual financial report (AFR) for the fiscal year ended June 30, 2017.
Criteria	Generally accepted accounting principles (GAAP) require the District to report an OPEB liability for District coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures and required supplementary information to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. GAAP further require that the District obtain an actuarial valuation of the District OPEB plan at least biennially since the plan included up to 234 plan members, which exceeded the 200-member minimum required for a biennial actuarial study. In addition, according to GAAP, certain Actuarial Standards of Practice (ASOP) must guide preparation of the actuarial study. For example, Section 3.1.2 of the Introduction to the ASOP provides that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon ASOP.
Condition	On the District AFR at June 30, 2017, the District reported an OPEB Payable of \$369,791 and related note disclosures. However, the District did not provide the requisite information to the actuary in order to obtain the required biennial actuarial valuation to support the payable and disclosures, but instead elected to report the same OPEB transactions that were reported in the AFR for the year ended June 30, 2016. As such, the District increased the OPEB Payable by a net of \$15,792, which was the same net increase reported for the prior fiscal year.
Cause	In response to our inquiry, District personnel indicated that, because of changes in key personnel, the District neglected to notify the Board to contract for and obtain the required actuarial valuation.
Effect	There is an increased need for the District to obtain the required biennial actuarial valuation as the OPEB liability amount increases in future years due to its cumulative nature.
Recommendation	The District should timely notify the Board to contract for and obtain the required actuarial valuation of the District OPEB plan to support OPEB information reported on the District AFR.
District Response	The District concurs with this finding. The District was uninformed of the prior administration's failure to provide for the required actuarial valuation. We used the estimates included in the prior valuation as it was the best information available at the time. On a prospective basis, the District is working with its current healthcare provider, as well as PAEC, to explore health benefit options for FY 2018-2019, and to ensure that PAEC performs the evaluation provided the continuance of an eligible number of District participants.
District Contact and Telephone Number	Marianne Arbulu, Superintendent (850) 342-0100

TANGIBLE PERSONAL PROPERTY

Finding Number	AM 2017-004
Opinion Unit	Governmental Activities
Financial Statements	
Account Titles	Capital Assets
Adjustment Amounts	Not Applicable
Statistically Valid Sample	Not Applicable
Prior Year Finding	Not Applicable

Finding	As of February 2018, District personnel had not conducted a complete physical tangible personal property (TPP) inventory at 7 of the District's 15 cost centers within the last 12 months. According to the June 30, 2017, TPP subsidiary records, the acquisition costs for the TPP assigned to those 7 cost centers totaled \$1.4 million.
Criteria	Chapter 274, Florida Statutes, and Florida Department of Financial Services (FDFS) Rule 69I-73, Florida Administrative Code, require the District to maintain adequate records of TPP (i.e., furniture, fixtures, and equipment, and motor vehicles) in its custody and that a complete physical inventory be taken annually. The results of the physical inventory are to be compared with the property records and any differences researched and resolved. All TPP items found during the physical inventory must be included in the property records, and any items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. If the investigation determines that the item was stolen, the District is required to file a report with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.
Condition	As of February 2018, District personnel had conducted physical inventory counts at only 8 of the District's 15 cost centers within the previous 12 months. According to the June 30, 2017, TPP subsidiary records, the acquisition costs for the TPP at the 8 cost centers totaled \$4.0 million. The 7 cost centers that had not been inventoried included the Middle/High School, an adult school, and an audio-visual cost center. The acquisition costs for the TPP assigned to those 7 cost centers totaled \$1.4 million. As part of our audit, we requested for examination recently purchased information technology (IT) equipment that was, according to the TPP records, located at the Middle/High School. The TPP inventory records for the school included 282 IT items with acquisition costs totaling \$376,059. We selected for examination 35 computers purchased during the 2016-17 fiscal year with acquisition costs totaling \$48,916 to determine whether the TPP was located at the school. However, 7 of the 35 computers with acquisition costs of \$9,783 were not located. As a charter school organization was selected to manage District operations during the 2017-18 fiscal year, we inquired with the charter school personnel regarding the 7 missing computers. In response to our inquiry, charter school personnel indicated that they were unaware of the computers' whereabouts. As of February 13, 2018, the District had not conducted a thorough investigation into the circumstances surrounding the missing computers, notified the Board of the missing items, or filed a report with law enforcement for any of the missing computers.
Cause	According to District personnel, the primary reason a physical inventory was not completed was the significant personnel departures at the time the TPP inventory was to be conducted.

Effect	Given the District's significant investment in TPP, it is important that TPP be effectively safeguarded and managed. Absent the conduct of appropriate physical inventory procedures, the District cannot demonstrate compliance with State law or FDFS rules and there is an increased risk that any loss or theft of District property will not be timely detected, reported to the appropriate parties, and reflected in District accounting records.
Recommendation	The District should ensure that an annual physical inventory of TPP is timely conducted and any differences are thoroughly investigated and resolved. Any items determined to have been stolen should be timely referred to the appropriate law enforcement agency. Additionally, the District should thoroughly investigate the whereabouts of the 7 missing computers and, if the investigation determines that the computers were stolen, a report should be filed with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.
District Response	The District concurs with this finding. The District did not complete the inventory process due to staff attrition during the school year because of the charter announcement and related school consolidation and staff terminations. The District will continue to investigate the 7 missing laptop computers, and will notify the board of the missing items. Upon disposition, the District will make the appropriate notifications. Prospectively, as much of the District tangible personal property is under the control of the charter school operator, the District will work with the charter school operator to ensure that inventory is conducted on all District tangible personal property in a timely manner, and that any discrepancies are properly investigated.
District Contact and Telephone Number	Marianne Arbulu, Superintendent (850) 342-0100

FACILITY INSPECTIONS

Finding Number	AM 2017-005
Opinion Unit	Not Applicable
Financial Statements	
Account Titles	Not Applicable
Adjustment Amounts	Not Applicable
Statistically Valid Sample	Not Applicable
Prior Year Finding	Not Applicable

Finding	Although we requested, District records were not provided to evidence that, as of January 2018, the required comprehensive safety inspection had been conducted for any of the District's 65 educational and ancillary plant facilities since June 2014. Subsequent to our request, inspection reports dated October 2016 were provided to us in March 2018; however, District records did not evidence any consideration of the reports by District personnel or any efforts by the District to obtain Board approval of the reports.
Criteria	Board Policy 6.510 and the <i>FDOE State Requirements for Educational Facilities (SREF)</i> require that an annual fire safety, casualty safety, and sanitation inspection be conducted pursuant to Section 1013.12, Florida Statutes, at all Board-owned, lease-purchased, leased-permanent, and relocatable buildings, and auxiliary and ancillary facilities. This comprehensive safety inspection is required to be completed each fiscal year and the resultant inspection reports submitted to the Board for review and approval.

Condition	Although we requested in January 2018, District records were not provided to evidence that the required comprehensive safety inspection had been conducted for any of the District's 65 educational and ancillary plant facility locations. The most recent inspection reports approved by the Board were approved on June 6, 2014. Examples of deficiencies cited in those reports included broken emergency lights, uncovered electrical outlets, expired fire extinguishers, and malfunctioning eye wash equipment. In addition, although we requested, District records were not provided to evidence whether any of the deficiencies cited in the June 2014 inspection reports had been corrected. Subsequent to our request, District records were provided in March 2018 that evidenced the required comprehensive safety inspection was conducted in October 2016 for the District's 65 educational and ancillary plant facility locations. However, as of March 2018, District records did not evidence any consideration of the inspection reports by District personnel or any efforts by the District to obtain Board approval of the reports.
Cause	According to District personnel, the District comprehensive safety inspection required during the 2016-17 fiscal year had been performed by an inspector who performed services for the Panhandle Area Educational Consortium. However, prior to our inquiry, District personnel were unaware that the inspection had been conducted.
Effect	Timely consideration of facility inspection reports and correction of facility deficiencies cited in the reports is critical to reduce risks to the occupants' health and safety and to avoid higher future costs.
Recommendation	District personnel should ensure that the District's required annual comprehensive safety inspection reports are maintained in the District records, considered for District action, and Board-approved in accordance with State law, the <i>SREF</i>, and Board policies. In addition, District records should evidence the actions taken to correct any deficiencies noted by the inspection.
District Response	The District concurs with this finding, as the prior administration failed to maintain adequate records. Therefore, the District will review prior year deficiencies for corrective action, and on a prospective basis, work collaboratively with the charter company, to ensure that the required inspections on educational and ancillary plant facilities are completed at all District facilities, as required by statute and rule.
District Contact and Telephone Number	Marianne Arbulu, Superintendent (850) 342-0100

PRIOR AUDIT FOLLOW-UP

The District had taken correction actions for the findings included in our report No. 2017-193, except that Finding AM 2017-001 was also noted in our report No. 2017-193 as Finding 3; and Finding AM 2017-002 was also noted in our report No. 2017-193 as Finding 1 and report No. 2016-169 as Findings 3 and 4.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Jefferson County School District

Marianne Arbulu, Superintendent

1490 W. Washington Street

Monticello, FL 32344

www.jeffersonschooldistrict.org

2014-177 (1) 2015-179 (1) 2016-169 (1) 2017-193 (2016-002)	Financial Reporting	Financial reporting procedures continue to need improvement to ensure account balances and transactions are properly reported and the annual financial report is timely submitted to the Florida Department of Education (FDOE).	Fully corrected	
2014-177 (2) 2015-179 (2) 2016-169 (2) 2017-193 (2016-003)	Bank Account Reconciliations	Controls over the bank account reconciliation process continue to need enhancement.	Not corrected	The District will implement new bank reconciliation control procedures in FY 17-18.
2017-193 (2016-001) 2016-169 (3) and (4)	Budgetary Controls and Financial Condition	District controls over the budgetary process continued to be deficient.	Partially corrected	The District will continue to improve in FY 17-18.
2017-193 (2016-004)	Capital Outlay and Debt Service Expenditures	Contrary to FDOE requirements, the District expended funds for capital outlay that did not appear consistent with FDOE requirements, resulting in questioned costs of \$33,363.	Fully corrected	The District restored \$33,363 of questioned costs to the capital outlay fund.

BOARD MEMBERS

District 1
Gladys Roann-Watson

District 2
Sandra Saunders

District 3
Shirley Washington

District 4
Bill Brumfield

District 5
Charles Boland