

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended  
June 30, 2012



## BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Eric F. Hinson, Vice Chair from 11-22-11	1
Judge B. Helms, Jr., Vice Chair to 11-21-11, Chair from 11-22-11	2
Isaac Simmons, Jr.	3
Charlie D. Frost	4
Roger P. Milton, Chair to 11-21-11	5

Reginald C. James, Superintendent

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

The audit team leader was Kathy Stich, CPA, and the audit was supervised by Karen L. Revell, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### ADDITIONAL MATTERS

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

Finding No. 2: The Board had not established a documented process to identify instruction personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 4: The District had not developed a written comprehensive information technology (IT) disaster recovery plan.

Finding No. 5: The District's IT security incident response plan procedures could be enhanced.

Finding No. 6: District's IT security controls related to logging and monitoring of system activity needed improvement.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, Title I Cluster, Twenty-First Century, School Improvement Grants Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Child Nutrition Cluster. We noted noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: District records did not always evidence proper review of school food service charges before payment for goods and services were made, resulting in \$45,129 of questioned costs for the Child Nutrition Cluster program.

Federal Awards Finding No. 2: District procedures were insufficient to ensure that the meal status of students was accurately assessed and documented, resulting in \$136,720 of questioned costs for the Child Nutrition Cluster program.

### Audit Objectives and Scope

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

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

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-149.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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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 FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. 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 26 percent of the assets and 74 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Gadsden County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Gadsden County District School Board's internal control over financial reporting and on our tests of its compliance with

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

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

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

Respectfully submitted,



David W. Martin, CPA  
March 12, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Gadsden County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

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

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- The District's total net assets decreased by \$3.8 million, or 5 percent.
- General revenues totaled \$54.4 million, or 92 percent of all revenues for the 2011-12 fiscal year, compared to \$60.2 million, or 93 percent for the 2010-11 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$4.4 million, or 8 percent of all revenues, compared to \$4.3 million, or 7 percent in the prior fiscal year.
- The assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$2.8 million at June 30, 2012, or 7 percent of General Fund expenditures, compared to \$4.2 million at June 30, 2011, or 10 percent of General Fund expenditures.
- During the current fiscal year, General Fund expenditures exceeded revenues by \$2.5 million. This may be compared to last fiscal year's results in which General Fund revenues exceeded expenditures by \$1.1 million.

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

The government-wide financial statements present the District's governmental activities. These statements represent most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education.

Support functions such as transportation and administration are also included. Local property taxes and the State education finance program provide most of the resources that support these activities.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

### **Fund Financial Statements**

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

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

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and 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 certain required supplementary information.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	<b>Net Assets, End of Year</b>	
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 8,278,735	\$ 9,190,498
Capital Assets	71,797,257	73,996,626
<b>Total Assets</b>	<b>80,075,992</b>	<b>83,187,124</b>
Long-Term Liabilities	6,872,011	6,589,333
Other Liabilities	948,407	501,161
<b>Total Liabilities</b>	<b>7,820,418</b>	<b>7,090,494</b>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	70,532,257	72,556,625
Restricted	3,595,721	3,509,186
Unrestricted (Deficit)	(1,872,404)	30,819
<b>Total Net Assets</b>	<b>\$ 72,255,574</b>	<b>\$ 76,096,630</b>

The largest portion of the District’s net assets (98 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

	<b>Operating Results for the Fiscal Year Ended</b>	
	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	\$ 320,085	\$ 401,668
Operating Grants and Contributions	3,733,032	3,642,157
Capital Grants and Contributions	395,365	293,998
General Revenues:		
Property Taxes, Levied for Operational Purposes	9,292,279	9,624,038
Property Taxes, Levied for Capital Projects	2,170,401	2,196,000
Grants and Contributions Not Restricted to Specific Programs	41,918,819	47,472,177
Unrestricted Investment Earnings	32,267	43,132
Miscellaneous	980,061	843,644
<b>Total Revenues</b>	<b>58,842,309</b>	<b>64,516,814</b>
Functions/Program Expenses:		
Instruction	28,737,325	30,760,103
Pupil Personnel Services	2,848,919	3,164,021
Instructional Media Services	945,969	1,086,776
Instruction and Curriculum Development Services	2,405,630	2,515,088
Instructional Staff Training Services	2,213,160	1,470,277
Instruction Related Technology	288,936	117,064
School Board	578,592	830,056
General Administration	756,650	758,764
School Administration	3,270,013	3,483,536
Facilities Acquisition and Construction	220,394	610,995
Fiscal Services	453,196	488,221
Food Services	4,071,981	3,921,480
Central Services	503,893	441,227
Pupil Transportation Services	4,009,905	4,437,405
Operation of Plant	5,309,446	5,569,317
Maintenance of Plant	1,539,450	1,471,472
Administrative Technology Services	452,080	416,330
Community Services	320,041	356,657
Unallocated Interest on Long-Term Debt	71,902	129,994
Unallocated Depreciation Expense	2,819,949	3,139,170
<b>Total Functions/Program Expenses</b>	<b>61,817,431</b>	<b>65,167,953</b>
<b>Deficiency Before Special Item</b>	<b>(2,975,122)</b>	<b>(651,139)</b>
<b>Special Item</b>	<b>(865,934)</b>	
<b>Decrease in Net Assets</b>	<b>\$ (3,841,056)</b>	<b>\$ (651,139)</b>

The largest revenue source is the State revenue (49 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 decreased by \$5.6 million or 12 percent, due to a reduction of Federal stimulus funds and FEFP revenues. The FEFP revenues decreased, in part, because student enrollment declined by 176 students.

Other State revenues are primarily for meeting the requirements of the class size amendment. There were no significant changes in other State revenues from the previous fiscal year.

Instruction expenses represent 46 percent of total governmental expenses for the 2011-12 fiscal year. Instruction expenses decreased by \$2 million or 7 percent from the previous fiscal year due mainly to a reduction in instructional staffing levels, resulting in a decrease in salaries and related benefits.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

### **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 \$2.7 million, while the total fund balance is \$3.6 million. Total fund balance decreased by \$1.4 million during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Declining enrollment resulted in decreased FEFP funding.
- General Fund expenditures increased because Federal stimulus programs were used to primarily fund annual contract teachers in the previous fiscal year, and Federal stimulus program funding declined significantly in the current fiscal year, as discussed below.

The Special Revenue – Other Fund is used by the District to account for resources of certain Federal grant programs and, for the 2011-12 fiscal year, had revenues and expenditures totaling \$10.6 million each. Also, the Special Revenue - Federal Economic Stimulus Fund had revenues and expenditures of \$1.9 million each during the current fiscal year and is used by the District to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act, such as the Race-to-the-Top grant. This fund had a \$3.7 million decrease in revenues and expenditures each from the previous fiscal year due to the expiration of certain Federal stimulus grants. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these special revenue funds do not generally accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of \$2.5 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased in the current fiscal year by approximately \$663 thousand mainly because the District purchased several buses in the 2010-11 fiscal year but did not make any similar purchases in the 2011-12 fiscal year. It should be noted that \$16 thousand of the fund balance has been encumbered for specific projects.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

There were no significant variations between the original and final budget amounts or between the final budget and actual amounts for the General fund. Actual expenditures and other financing uses were \$2,451,217 less than the final budgeted amounts. Positive budget variances occurred in all functions. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2,365,752.

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## **CAPITAL ASSETS AND LONG-TERM DEBT**

### **Capital Assets**

The District's investment in capital assets for its governmental activities at June 30, 2012, is \$71.8 million (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 construction in progress.

The District sold an abandoned school site during the current fiscal year. Additional information on the District's capital assets can be found in Note 5 to the financial statements.

### **Long-Term Debt**

At June 30, 2012, the District had total long-term debt outstanding of \$1.3 million, comprised solely of bonds payable.

Additional information on the District's long-term debt can be found in Notes 6 and 7 to the financial statements.

## **OTHER MATTERS OF SIGNIFICANCE**

Revenues from State sources for current operations are primarily from the FEFP administered by the Florida Department of Education under provisions of Section 1011.62, Florida Statutes. Funding from this formula is based on factors such as the legislative determination of the base student allocation, and the number of full-time equivalent students enrolled in the District. Given the current local and State economy, it is expected that the District will continue to see a reduction in State and local funding due to continued expected declines in student enrollment.

The District will continue with current plans to reduce expenses and build reserves to offset future reductions.

## **REQUESTS FOR INFORMATION**

This report is designed to provide a general overview of the Gadsden County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business and Finance, Gadsden County District School Board, 35 Martin Luther King, Jr., Boulevard, Quincy, FL 32351.

**BASIC FINANCIAL STATEMENTS**

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS  
June 30, 2012**

		Governmental Activities
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	5,996,843.05
Investments		90,136.87
Accounts Receivable		9,433.45
Due from Other Agencies		1,181,829.86
Prepaid Items		682.93
Inventories		302,600.71
Notes Receivable		697,207.79
Capital Assets:		
Nondepreciable Capital Assets		1,814,418.93
Depreciable Capital Assets, Net		69,982,838.53
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>80,075,992.12</b>
<b>LIABILITIES</b>		
Payroll Deductions and Withholdings	\$	1,297.30
Accounts Payable		946,689.29
Deferred Revenue		420.00
Long-Term Liabilities:		
Portion Due Within One Year		785,000.00
Portion Due After One Year		6,087,010.99
<b>Total Liabilities</b>		<b>7,820,417.58</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		70,532,257.46
Restricted for:		
State Required Carryover Programs		522,225.27
Debt Service		36,274.58
Capital Projects		2,770,858.09
Food Service		261,933.92
Federal Carryover Programs		4,429.02
Unrestricted		(1,872,403.80)
<b>Total Net Assets</b>		<b>72,255,574.54</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>80,075,992.12</b>

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 28,737,325.43	\$ 60,244.41	\$	\$	\$ (28,677,081.02)
Pupil Personnel Services	2,848,919.18				(2,848,919.18)
Instructional Media Services	945,968.91				(945,968.91)
Instruction and Curriculum Development Services	2,405,630.09				(2,405,630.09)
Instructional Staff Training Services	2,213,159.81				(2,213,159.81)
Instruction Related Technology	288,936.29				(288,936.29)
School Board	578,591.49				(578,591.49)
General Administration	756,649.70				(756,649.70)
School Administration	3,270,012.88				(3,270,012.88)
Facilities Acquisition and Construction	220,393.87			152,824.06	(67,569.81)
Fiscal Services	453,196.22				(453,196.22)
Food Services	4,071,981.00	160,383.65	3,733,031.61		(178,565.74)
Central Services	503,892.83				(503,892.83)
Pupil Transportation Services	4,009,905.23	99,456.84			(3,910,448.39)
Operation of Plant	5,309,446.33				(5,309,446.33)
Maintenance of Plant	1,539,449.86				(1,539,449.86)
Administrative Technology Services	452,079.81				(452,079.81)
Community Services	320,041.14				(320,041.14)
Unallocated Interest on Long-Term Debt	71,901.74			242,541.29	170,639.55
Unallocated Depreciation*	2,819,948.97				(2,819,948.97)
<b>Total Governmental Activities</b>	<b>\$ 61,817,430.78</b>	<b>\$ 320,084.90</b>	<b>\$ 3,733,031.61</b>	<b>\$ 395,365.35</b>	<b>(57,368,948.92)</b>
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					
					9,292,278.74
Property Taxes, Levied for Capital Projects					
					2,170,400.72
Grants and Contributions Not Restricted to Specific Programs					
					41,918,819.00
Unrestricted Investment Earnings					
					32,267.39
Miscellaneous					
					980,061.60
Special Item: Sale of Land and Building					
					(865,934.14)
<b>Total General Revenues and Special Items</b>					
					<b>53,527,893.31</b>
<b>Change in Net Assets</b>					
					<b>(3,841,055.61)</b>
Net Assets - Beginning					
					76,096,630.15
<b>Net Assets - Ending</b>					
					<b>\$ 72,255,574.54</b>

\* 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.

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**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,117,156.46	\$ 1,886.39	\$
Investments	53,862.29		
Accounts Receivable	5,509.57	971.28	
Due from Other Funds	327,442.79		
Due from Other Agencies	181,604.79	677,605.33	169,596.70
Prepaid Items		682.93	
Inventories	208,064.71		
<b>TOTAL ASSETS</b>	<b>\$ 3,893,640.61</b>	<b>\$ 681,145.93</b>	<b>\$ 169,596.70</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payroll Deductions and Withholdings	\$ 1,297.30	\$	\$
Accounts Payable	332,718.64	435,855.16	83,129.21
Due to Other Funds		240,441.75	86,467.49
Deferred Revenue		420.00	
<b>Total Liabilities</b>	<b>334,015.94</b>	<b>676,716.91</b>	<b>169,596.70</b>
Fund Balances:			
Nonspendable:			
Inventory	208,064.71		
Restricted for:			
Federal Required Carryover Programs		4,429.02	
Food Service			
State Required Carryover Programs	522,225.27		
Debt Service			
Capital Projects			
Total Restricted Fund Balance	522,225.27	4,429.02	
Assigned for Budgeted Carryforwards	135,757.86		
Unassigned Fund Balance	2,693,576.83		
<b>Total Fund Balances</b>	<b>3,559,624.67</b>	<b>4,429.02</b>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,893,640.61</b>	<b>\$ 681,145.93</b>	<b>\$ 169,596.70</b>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,466,354.38	\$ 411,445.82	\$ 5,996,843.05
	36,274.58	90,136.87
		6,480.85
	2,419.05	329,861.84
1,207.34	151,815.70	1,181,829.86
		682.93
	94,536.00	302,600.71
<u>\$ 2,467,561.72</u>	<u>\$ 696,491.15</u>	<u>\$ 7,908,436.11</u>
\$ 4,661.59	\$ 90,324.69	\$ 1,297.30
		946,689.29
		326,909.24
		420.00
<u>4,661.59</u>	<u>90,324.69</u>	<u>1,275,315.83</u>
	94,536.00	302,600.71
		4,429.02
	167,397.92	167,397.92
		522,225.27
	36,274.58	36,274.58
2,462,900.13	307,957.96	2,770,858.09
<u>2,462,900.13</u>	<u>511,630.46</u>	<u>3,501,184.88</u>
		135,757.86
		2,693,576.83
<u>2,462,900.13</u>	<u>606,166.46</u>	<u>6,633,120.28</u>
<u>\$ 2,467,561.72</u>	<u>\$ 696,491.15</u>	<u>\$ 7,908,436.11</u>

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Total Fund Balances - Governmental Funds** \$ 6,633,120.28

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 71,797,257.46

Certain receivables are not collectable and available in the current period, and therefore, are not reported as assets on the governmental fund statements. 697,207.79

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:

Bonds Payable	\$	(1,265,000.00)	
Compensated Absences Payable		(2,821,971.99)	
Other Postemployment Benefits Payable		(2,785,039.00)	(6,872,010.99)

**Total Net Assets - Governmental Activities** \$ 72,255,574.54

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

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**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2012**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 129,661.42	\$ 1,886,889.24	\$
Federal Through State and Local	816,904.17	8,729,982.04	1,937,960.62
State	28,412,258.81		
Local:			
Property Taxes	9,292,278.74		
Charges for Services - Food Service			
Miscellaneous	1,088,800.25		
Total Local Revenues	<u>10,381,078.99</u>		
<b>Total Revenues</b>	<u>39,739,903.39</u>	<u>10,616,871.28</u>	<u>1,937,960.62</u>
<b>Expenditures</b>			
Current - Education:			
Instruction	22,391,977.78	5,254,237.57	841,928.85
Pupil Personnel Services	1,624,376.83	1,111,059.67	86,590.38
Instructional Media Services	751,029.37	179,572.22	8,931.33
Instruction and Curriculum Development Services	1,023,578.36	1,156,262.36	200,192.86
Instructional Staff Training Services	153,518.93	1,564,739.02	478,483.97
Instruction Related Technology	43,168.31	125,130.38	118,995.81
School Board	576,617.88		
General Administration	468,542.75	243,305.93	40,910.44
School Administration	3,197,632.42	30,438.42	4,930.24
Facilities Acquisition and Construction	131,890.13		3,725.00
Fiscal Services	448,824.93		
Food Services	20,266.18		
Central Services	337,977.06	80,947.80	80,396.59
Pupil Transportation Services	3,588,520.97	292,810.97	6,019.14
Operation of Plant	5,113,837.36	178,768.35	
Maintenance of Plant	1,531,254.80	564.88	
Administrative Technology Services	449,650.92		
Community Services	268,172.62	47,998.97	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	29,707.00	58,024.65	30,282.25
Other Capital Outlay	48,502.55	293,010.09	36,573.76
Debt Service:			
Principal			
Interest and Fiscal Charges			
<b>Total Expenditures</b>	<u>42,199,047.15</u>	<u>10,616,871.28</u>	<u>1,937,960.62</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,459,143.76)</u>		
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,006,301.88		
Proceeds from Sale of Capital Assets	26,945.17		
Insurance Loss Recoveries	8,553.93		
Transfers Out			
<b>Total Other Financing Sources (Uses)</b>	<u>1,041,800.98</u>		
<b>Net Change in Fund Balances</b>	(1,417,342.78)		
Fund Balances, Beginning	4,976,967.45	4,429.02	
<b>Fund Balances, Ending</b>	<u>\$ 3,559,624.67</u>	<u>\$ 4,429.02</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	3,668,268.61	2,016,550.66
	465,291.05	15,153,115.44
		28,877,549.86
2,170,400.72		11,462,679.46
	160,383.65	160,383.65
9,347.39	12,817.83	1,110,965.47
<u>2,179,748.11</u>	<u>173,201.48</u>	<u>12,734,028.58</u>
<u>2,179,748.11</u>	<u>4,306,761.14</u>	<u>58,781,244.54</u>
		28,488,144.20
		2,822,026.88
		939,532.92
		2,380,033.58
		2,196,741.92
		287,294.50
		576,617.88
		752,759.12
		3,233,001.08
83,856.98		219,472.11
		448,824.93
	4,033,518.30	4,053,784.48
		499,321.45
		3,887,351.08
		5,292,605.71
		1,531,819.68
		449,650.92
		316,171.59
211,344.85	492,239.06	821,597.81
317,134.02	14,087.13	709,307.55
	175,000.00	175,000.00
	71,901.74	71,901.74
<u>612,335.85</u>	<u>4,786,746.23</u>	<u>60,152,961.13</u>
<u>1,567,412.26</u>	<u>(479,985.09)</u>	<u>(1,371,716.59)</u>
		1,006,301.88
		26,945.17
		8,553.93
<u>(904,713.99)</u>	<u>(101,587.89)</u>	<u>(1,006,301.88)</u>
<u>(904,713.99)</u>	<u>(101,587.89)</u>	<u>35,499.10</u>
662,698.27	(581,572.98)	(1,336,217.49)
<u>1,800,201.86</u>	<u>1,187,739.44</u>	<u>7,969,337.77</u>
<u>\$ 2,462,900.13</u>	<u>\$ 606,166.46</u>	<u>\$ 6,633,120.28</u>

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2012**

**Net Change in Fund Balances - Governmental Funds** \$ (1,336,217.49)

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 outlay in the current fiscal year. (842,594.50)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (1,356,773.55)

Governmental funds report payments received for Notes Receivable as revenue. However, in the Statement of Activities, only the interest received is reported. This is the amount of principal received for the Notes Payable in the current period. (22,792.21)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current fiscal year. 175,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (136,302.86)

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. (321,375.00)

**Change in Net Assets - Governmental Activities** \$ (3,841,055.61)

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -  
FIDUCIARY FUNDS  
June 30, 2012**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 251,020.18
<b>LIABILITIES</b>	
Accounts Payable	15,734.92
Due to Other Funds	2,952.60
Internal Accounts Payable	<u>232,332.66</u>
<b>Total Liabilities</b>	<u>\$ 251,020.18</u>

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The Gadsden County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Gadsden County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Gadsden County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the *Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any 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 or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

**Basis of Presentation:**

- **Government-wide Financial Statements** - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not 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.

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

- **Fund Financial Statements** - Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund type:

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

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

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

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

**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 assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750 for assets acquired on or after the 2006-07 fiscal year. The capitalization threshold prior to that period was \$500, and those assets remain in the capital asset balances. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

Capital assets are depreciated using the straight-line method, with all other assets being depreciated using the composite method of depreciation, over the following estimated useful lives:

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

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

**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 assets.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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.

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

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

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. 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 Gadsden County Tax Collector at fiscal year-end but not yet remitted to the District.

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

**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.

## **2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information.** The Board follows procedures established by State statutes and State Board of Education rules in establishing budget balances for governmental funds, as described below:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- 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.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**3. INVESTMENTS**

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 98,404.79
Fund B Surplus Funds Trust Fund (Fund B)	5.73 Year Average	53,862.29
Debt Service Accounts	6 Months	36,274.58
Total Investments, Reporting Entity		<u>\$ 188,541.66</u>

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

➤ Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2012, is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ Credit Risk

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

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

As of June 30, 2012, the District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**4. NOTES RECEIVABLE**

The District sold Chattahoochee High School and Havana North Side High School each to a separate not-for-profit corporation, and as part of the sales agreement, the District issued and held interest bearing notes receivable in the amount of the sales price. The first note is for \$500,000, bearing interest at one percent per annum, payable in monthly installments of \$2,299.47 until paid-in-full with the first installment received February 1, 2011. The second note is for \$220,000, bearing interest at one percent per annum, payable in monthly installments of \$1,011.77 until paid-in-full with the first installment due January 1, 2013. At June 30, 2012, the District's remaining notes receivable balance was \$697,207.79.

**5. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,774,788.29	\$	\$ 2,200.00 (1)	\$ 1,772,588.29
Construction in Progress		41,830.64		41,830.64
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,774,788.29</b>	<b>41,830.64</b>	<b>2,200.00</b>	<b>1,814,418.93</b>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,367,111.35	204,791.80		4,571,903.15
Buildings and Fixed Equipment	91,546,655.28	615,476.48	1,464,446.46 (1)	90,697,685.30
Furniture, Fixtures, and Equipment	6,654,698.31	1,058,875.77	593,508.73	7,120,065.35
Motor Vehicles	7,284,989.83	149,127.96		7,434,117.79
<b>Total Capital Assets Being Depreciated</b>	<b>109,853,454.77</b>	<b>2,028,272.01</b>	<b>2,057,955.19</b>	<b>109,823,771.59</b>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,761,583.79	82,716.24		2,844,300.03
Buildings and Fixed Equipment	25,900,445.89	2,089,740.02	688,124.05	27,302,061.86
Furniture, Fixtures, and Equipment	4,798,430.18	629,826.39	15,257.59	5,412,998.98
Motor Vehicles	4,171,157.69	110,414.50		4,281,572.19
<b>Total Accumulated Depreciation</b>	<b>37,631,617.55</b>	<b>2,912,697.15</b>	<b>703,381.64</b>	<b>39,840,933.06</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>72,221,837.22</b>	<b>(884,425.14)</b>	<b>1,354,573.55</b>	<b>69,982,838.53</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 73,996,625.51</b>	<b>\$ (842,594.50)</b>	<b>\$ 1,356,773.55</b>	<b>\$ 71,797,257.46</b>

Note (1): Included in the disposal of capital assets were several school buildings that were sold or demolished and reported as a special item totaling \$865,934.14 on the Statement of Activities.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 92,748.18
Unallocated	2,819,948.97
 Total Depreciation Expense - Governmental Activities	 \$ 2,912,697.15

**6. BONDS PAYABLE**

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 1,185,000.00	5.0	2018
Series 2009A, Refunding	80,000.00	4.0 - 5.0	2019
 Total Bonds Payable	 \$ 1,265,000.00		

The bonds were issued by the State Board of Education to finance capital outlay projects of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 248,100.00	\$ 185,000.00	\$ 63,100.00
2014	239,000.00	185,000.00	54,000.00
2015	244,750.00	200,000.00	44,750.00
2016	249,750.00	215,000.00	34,750.00
2017	249,000.00	225,000.00	24,000.00
2018-2019	268,750.00	255,000.00	13,750.00
 Total State School Bonds	 \$1,499,350.00	 \$1,265,000.00	 \$ 234,350.00

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**7. 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
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable	\$ 1,440,000.00	\$	\$ 175,000.00	\$ 1,265,000.00	\$ 185,000.00
Compensated Absences Payable	2,685,669.13	324,868.64	188,565.78	2,821,971.99	600,000.00
Other Postemployment Benefits Payable	2,463,664.00	690,798.00	369,423.00	2,785,039.00	
<b>Total Governmental Activities</b>	<b><u>\$ 6,589,333.13</u></b>	<b><u>\$ 1,015,666.64</u></b>	<b><u>\$ 732,988.78</u></b>	<b><u>\$ 6,872,010.99</u></b>	<b><u>\$ 785,000.00</u></b>

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

**8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 327,442.79	\$
Special Revenue:		
Other		240,441.75
Federal Economic Stimulus		86,467.49
Nonmajor Governmental	2,419.05	
Fiduciary		2,952.60
<b>Total</b>	<b><u>\$ 329,861.84</u></b>	<b><u>\$ 329,861.84</u></b>

The interfund balances between the General Fund and Special Revenue - Other and Federal Economic Stimulus Funds represent temporary borrowing for project expenditures that are awaiting reimbursement from other agencies. The interfund balance between the nonmajor governmental funds and the fiduciary funds represents petty cash balances at school food service sites.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,006,301.88	\$
Capital Projects:		
Local Capital Improvement		904,713.99
Nonmajor Governmental		101,587.89
Total	\$ 1,006,301.88	\$ 1,006,301.88

The purpose of the interfund transfer was to provide for expenditures originally paid from other funds (e.g., maintenance was paid from the General Fund and reimbursed with capital projects fund moneys).

**9. FUND BALANCE REPORTING**

The District reports its governmental fund balances in the following categories, as applicable:

➤ Nonspendable

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

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. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ Committed

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ Assigned

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent and Assistant Superintendent for Business and Finance and not included in other categories.

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

➤ Unassigned

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.

**10. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue sources for the 2011-12 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 19,907,028.00
Categorical Educational Program - Class Size Reduction	5,985,152.00
Workforce Development Program	823,355.00
Voluntary Prekindergarten Program	805,639.46
Adults with Disabilities	320,057.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	293,777.46
School Recognition	265,770.00
Charter School Capital Outlay	101,587.89
Miscellaneous	<u>375,183.05</u>
 Total	 <u><u>\$ 28,877,549.86</u></u>

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

**11. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.424	\$ 8,161,760.14
Basic Discretionary Local Effort	0.748	1,125,552.47
Critical Operating Needs	0.250	376,187.32
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>2,257,123.93</u>
 Total	 <u><u>7.922</u></u>	 <u><u>\$ 11,920,623.86</u></u>

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

**12. FLORIDA RETIREMENT SYSTEM**

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

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

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

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

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
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JUNE 30, 2012**

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions including employee contributions for the fiscal year ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$2,789,395.55, \$3,129,645.00, and \$2,271,098.83, respectively, which were equal to the required contributions for each fiscal year.

There were 76 District participants in the Investment Plan during the 2011-12 fiscal year. The District’s contributions including employee contributions to the Investment Plan totaled \$177,226.64, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

**13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE**

**Plan Description.** The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Pursuant to Section 112.0801, Florida Statutes, the District contributed towards the costs of healthcare benefits for former employees who retired prior to May 2, 2001. Effective October 1, 2002, the Board

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DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

decreased its contribution from \$50 to \$30 per month per former retired employees. Premiums totaled \$71,460 for the 2011-12 fiscal year, and the District provided benefits to 141 retired former employees at June 30, 2012. 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 2011-12 fiscal year, 164 retirees received other postemployment benefits. The District provided required contributions of \$369,423 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling \$500,757, which represents 2.3 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 15 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 297,980
Amortization of Unfunded Actuarial Accrued Liability	<u>461,923</u>
Annual Required Contribution	759,903
Interest on Net OPEB Obligation	92,387
Adjustment to Annual Required Contribution	<u>(161,492)</u>
Annual OPEB Cost (Expense)	690,798
Contribution Toward the OPEB Cost	<u>(369,423)</u>
Increase in Net OPEB Obligation	321,375
Net OPEB Obligation, Beginning of Year	<u>2,463,664</u>
Net OPEB Obligation, End of Year	<u><u>\$ 2,785,039</u></u>

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 1,962,957	45.1%	\$ 2,139,198
2010-11	664,366	51.2%	2,463,664
2011-12	690,798	53.5%	2,785,039

**Funded Status and Funding Progress.** As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$6,652,347, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,652,347 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,076,006, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 30.1 percent.

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

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

The District’s OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District’s 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially for the 2010-11 fiscal year, reducing to an ultimate rate of 5 percent after eight years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level

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DISTRICT SCHOOL BOARD  
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JUNE 30, 2012**

percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 14 years.

**14. OTHER SIGNIFICANT COMMITMENTS**

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

The following is a schedule of encumbrances at June 30, 2012:

<b>Major Funds</b>					
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 135,758	\$ 685,889	\$ 387,989	\$ 16,069	\$ 149,998	\$ 1,375,703

**15. RISK MANAGEMENT PROGRAMS**

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

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

**16. LITIGATION**

The District is involved in several pending and threatened legal actions. The range of loss from all claims and actions, as estimated by District management, should not materially affect the financial condition of the District.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS  
For the Fiscal Year Ended June 30, 2012**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 141,000.00	\$ 141,000.00	\$ 129,661.42	\$ (11,338.58)
Federal Through State and Local State	150,000.00	558,931.23	816,904.17	257,972.94
	29,226,789.00	28,504,227.04	28,412,258.81	(91,968.23)
Local:				
Property Taxes	9,276,960.00	9,276,960.00	9,292,278.74	15,318.74
Miscellaneous	1,001,000.00	2,376,185.42	1,088,800.25	(1,287,385.17)
Total Local Revenues	10,277,960.00	11,653,145.42	10,381,078.99	(1,272,066.43)
<b>Total Revenues</b>	<b>39,795,749.00</b>	<b>40,857,303.69</b>	<b>39,739,903.39</b>	<b>(1,117,400.30)</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	23,424,217.36	23,719,610.89	22,391,977.78	1,327,633.11
Pupil Personnel Services	1,592,644.19	1,638,200.57	1,624,376.83	13,823.74
Instructional Media Services	765,421.15	770,421.15	751,029.37	19,391.78
Instruction and Curriculum Development Services	1,024,266.71	1,034,774.41	1,023,578.36	11,196.05
Instructional Staff Training Services	35,074.50	154,574.50	153,518.93	1,055.57
Instruction Related Technology	115,369.40	115,570.71	43,168.31	72,402.40
School Board	830,339.98	828,547.60	576,617.88	251,929.72
General Administration	411,813.30	475,372.30	468,542.75	6,829.55
School Administration	3,433,332.18	3,433,632.18	3,197,632.42	235,999.76
Facilities Acquisition and Construction	72,722.41	136,692.30	131,890.13	4,802.17
Fiscal Services	453,470.13	455,680.13	448,824.93	6,855.20
Food Services	8,430.02	20,267.02	20,266.18	0.84
Central Services	352,986.84	352,986.84	337,977.06	15,009.78
Pupil Transportation Services	3,609,455.46	3,613,455.46	3,588,520.97	24,934.49
Operation of Plant	5,519,746.84	5,501,346.84	5,113,837.36	387,509.48
Maintenance of Plant	1,518,910.45	1,543,039.88	1,531,254.80	11,785.08
Administrative Technology Services	420,508.29	476,125.29	449,650.92	26,474.37
Community Services		301,756.28	268,172.62	33,583.66
Fixed Capital Outlay:				
Facilities Acquisition and Construction		29,707.00	29,707.00	
Other Capital Outlay		48,502.55	48,502.55	
<b>Total Expenditures</b>	<b>43,588,709.21</b>	<b>44,650,263.90</b>	<b>42,199,047.15</b>	<b>2,451,216.75</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,792,960.21)</b>	<b>(3,792,960.21)</b>	<b>(2,459,143.76)</b>	<b>1,333,816.45</b>
<b>Other Financing Sources</b>				
Transfers In			1,006,301.88	1,006,301.88
Proceeds from Sale of Capital Assets			26,945.17	26,945.17
Insurance Loss Recoveries			8,553.93	8,553.93
<b>Total Other Financing Sources</b>			<b>1,041,800.98</b>	<b>1,041,800.98</b>
<b>Net Change in Fund Balances</b>	<b>(3,792,960.21)</b>	<b>(3,792,960.21)</b>	<b>(1,417,342.78)</b>	<b>2,375,617.43</b>
Fund Balances, Beginning	4,986,832.68	4,986,832.68	4,976,967.45	(9,865.23)
<b>Fund Balances, Ending</b>	<b>\$ 1,193,872.47</b>	<b>\$ 1,193,872.47</b>	<b>\$ 3,559,624.67</b>	<b>\$ 2,365,752.20</b>

Original Budget	Special Revenue - Other Fund			Original Budget	Special Revenue - Federal Economic Stimulus Fund		
	Final Budget	Actual	Variance with Final Budget - Positive (Negative)		Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 662,981.57 7,371,446.91	\$ 2,705,406.57 13,476,136.42	\$ 1,886,889.24 8,729,982.04	\$ (818,517.33) (4,746,154.38)	\$ 388,693.84	\$ 4,196,332.68	\$ 1,937,960.62	\$ (2,258,372.06)
8,034,428.48	16,181,542.99	10,616,871.28	(5,564,671.71)	388,693.84	4,196,332.68	1,937,960.62	(2,258,372.06)
4,090,102.68 662,335.90 313,225.91 792,555.70 1,389,396.10 103,201.92	7,489,760.27 1,398,733.68 485,531.75 1,765,173.29 2,860,535.16 147,961.35	5,254,237.57 1,111,059.67 179,572.22 1,156,262.36 1,564,739.02 125,130.38	2,235,522.70 287,674.01 305,959.53 608,910.93 1,295,796.14 22,830.97	228,996.59 19,232.35	1,890,118.70 109,989.54 30,350.00 264,285.54 942,407.77 315,379.23	841,928.85 86,590.38 8,931.33 200,192.86 478,483.97 118,995.81	1,048,189.85 23,399.16 21,418.67 64,092.68 463,923.80 196,383.42
132,685.98 (32,081.42) 1,935.00	458,644.68 30,438.42	243,305.93 30,438.42	215,338.75	3,136.04	112,933.30 4,930.24 3,725.00	40,910.44 4,930.24 3,725.00	72,022.86
11,312.07 437,764.21 109,942.30	98,186.27 694,577.62 235,265.91 1,500.00	80,947.80 292,810.97 178,768.35 564.88	17,238.47 401,766.65 56,497.56 935.12	(12,099.41) 5,550.74	222,531.06 157,826.29	80,396.59 6,019.14	142,134.47 151,807.15
2,635.30 19,416.83	90,135.30 78,064.55	90,135.30 47,998.97	90,135.30 30,065.58		75,000.00		75,000.00
	58,024.65 293,010.09	58,024.65 293,010.09			30,282.25 36,573.76	30,282.25 36,573.76	
8,034,428.48	16,185,542.99	10,616,871.28	5,568,671.71	388,693.84	4,196,332.68	1,937,960.62	2,258,372.06
	(4,000.00)		4,000.00				
	(4,000.00) 4,429.02		4,000.00				
\$ 0.00	\$ 429.02	\$ 4,429.02	\$ 4,000.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (B) (1)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 29,070,050	\$ 29,070,050	0.0%	\$ 27,912,948	104.1%
October 1, 2010	0	6,652,347	6,652,347	0.0%	22,076,006	30.1%

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

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**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2012**

**1. BUDGETARY BASIS OF ACCOUNTING**

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

**2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**

The October 1, 2010, unfunded actuarial accrued liability of \$6,652,347 was significantly lower than the October 1, 2007, liability of \$29,070,050. This decrease was primarily due to a change in approach that excluded retirees age 65 and older from the covered population, which also affected several actuarial assumptions.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Agriculture:</b>				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 332,002.23	\$
National School Lunch Program	10.555	300, 350	857,522.09	
Summer Food Service Program for Children	10.559	323	133,760.71	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	512,217.39	
National School Lunch Program	10.555 (2)(A)	300, 350	1,607,528.75	
Summer Food Service Program for Children	10.559	323	74,243.85	
<b>Total Child Nutrition Cluster</b>			<b>3,517,275.02</b>	
Florida Department of Education:				
Fresh Fruit and Vegetable Program	10.582	330, 331	63,712.06	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	330, 331	78,881.53	
<b>Total United States Department of Agriculture</b>			<b>3,659,868.61</b>	
<b>United States Department of Labor:</b>				
Indirect:				
Washington County District School Board:				
National Farmworker Jobs Program	17.264	None	144.00	
<b>Total United States Department of Labor</b>			<b>144.00</b>	
<b>United States Department of Energy:</b>				
Indirect:				
University of Central Florida:				
ARRA - State Energy Program	81.041 (2)(B)	None	41,830.64	
<b>Total United States Department of Energy</b>			<b>41,830.64</b>	
<b>United States Department of Education:</b>				
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212,222,226,228	3,955,557.25	187,499.03
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	222, 226	131,099.36	
<b>Total Title I, Part A Cluster</b>			<b>4,086,656.61</b>	<b>187,499.03</b>
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	1,606,154.28	19,296.50
Special Education - Preschool Grants	84.173	267	78,909.13	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	157,128.85	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	4,968.67	
University of South Florida:				
Special Education - Grants to States	84.027	None	2,000.00	
<b>Total Special Education Cluster</b>			<b>1,849,160.93</b>	<b>19,296.50</b>
TRIO Cluster:				
Florida Agricultural and Mechanical University:				
TRIO-Talent Search	84.044	None	10,235.25	
Florida State University:				
TRIO-Upward Bound	84.047	None	27,205.00	
Tallahassee Community College:				
TRIO-Talent Search	84.044	None	5,062.85	
<b>Total Trio Cluster</b>			<b>42,503.10</b>	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	1,374,382.55	
ARRA - School Improvement Grants, Recovery Act	84.388	126	929,538.98	
<b>Total School Improvement Grants Cluster</b>			<b>2,303,921.53</b>	

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Education (Continued):</b>				
Indirect (Continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	\$ 52,836.34	\$
Career and Technical Education - Basic Grants to States	84.048	161	177,882.75	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	599.68	
Education for Homeless Children and Youth	84.196	127	76,717.73	
Twenty-First Century Community Learning Centers	84.287	244	675,746.86	
Education Technology State Grants	84.318	121,122	149,385.00	
English Language Acquisition Grants	84.365	102	66,459.31	
Improving Teacher Quality State Grants	84.367	224	515,910.76	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RS611, RG311	698,653.76	
Education Jobs Fund	84.410	541	16,571.00	
University of South Florida:				
Mathematics and Science Partnerships	84.366	235	19,176.50	
Washington County District School Board:				
Migrant Education - State Grant Program	84.011	None	58,219.87	
Voluntary Public School Choice	84.361	None	194.11	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	31,806.95	
Nova Southeastern University:				
Voluntary Public School Choice	84.361	None	44,923.33	
Tallahassee Community College:				
Twenty-First Century Community Learning Centers	84.287	None	59,543.44	
<b>Total United States Department of Education</b>			<b>10,926,869.56</b>	<b>206,795.53</b>
<b>United States Department of Health and Human Services:</b>				
Direct:				
Head Start	93.600 (3)	NA	1,886,889.24	
<b>Corporation for National and Community Service:</b>				
Indirect:				
Tallahassee Community College:				
AmeriCorps	94.006	None	246,490.91	
<b>Total Corporation for National and Community Service</b>			<b>246,490.91</b>	
<b>United States Department of Defense:</b>				
Direct:				
Army Junior Reserve Officers Training Corps	None	NA	129,661.42	
<b>Total Expenditures of Federal Awards</b>			<b>\$ 16,891,754.38</b>	<b>\$ 206,795.53</b>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance:

(A) National School Lunch Program - Includes \$243,383.19 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) State Energy Program - Includes \$29,870.64 representing the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Head Start Expenditures include \$662,981.57 for grant number/program year 04CH0241/26 and \$1,223,907.67 for grant number/program year 04CH0241/27.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to 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. Other auditors audited the financial statements of the school internal funds, as described in our report on the Gadsden County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

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

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

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA  
March 12, 2013



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the Gadsden County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Allowable Costs/Cost Principles and Procurement applicable to its Child Nutrition Cluster program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the 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, 2012. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2.

### **Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2 to be a significant deficiency.

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

**Restricted Purpose Relating to Testing of Internal Control Over Compliance**

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA  
March 12, 2013

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) program, which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555 and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); and ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$506,752
Auditee qualified as low-risk auditee?	No

**GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**ADDITIONAL MATTERS**

**Finding No. 1: Financial Reporting**

Our review of the District's 2011-12 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. District personnel miscalculated the tax levy proceeds attributed to ad valorem taxes, resulting in overstatements of General Fund assets and local revenue and understatements of Capital Projects - Local Capital Improvement Fund assets and local revenue of \$66,285.59 each. Incorrectly reporting ad valorem tax levy proceeds in the General Fund increases the risk that the District may violate expenditure restrictions governing the use of these proceeds.

We extended our audit procedures to determine the adjustments necessary to properly report the accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

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

**Finding No. 2: Compensation and Salary Schedules**

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

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

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, level of job

performance difficulties, or critical shortage areas for instruction personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that plans are to revise the salary schedule and renegotiate the union contract for the 2012-13 fiscal year to comply with the statutory differentiated pay requirements. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-163 and 2012-149.

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**Recommendation:** The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

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**Finding No. 3: Adult General Education Classes**

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Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures. In addition, Section 1011.80(5)(d), Florida Statutes, prohibits the District from reporting adult general education contact hours of students whose direct instructional costs were fully funded by an external agency.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 27,624 adult general education instructional contact hours for 178 students enrolled in 620 classes. We tested 4,453 contact hours reported for 15 students enrolled in 70 classes, and noted 2,726 hours overreported for 7 students in 33 classes. District personnel indicated that these reporting errors occurred mainly because District personnel incorrectly recorded student withdrawal dates and the number of hours for certain classes into the student record system.

Further review disclosed that the District reported 3,065 contact hours for 79 Florida State Hospital students enrolled in an adult education class whose direct instructional costs were fully funded by the State Adults with Disabilities program, contrary to Section 1011.80(5)(d), Florida Statutes.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the data be submitted correctly. Similar findings were noted in our report Nos. 2011-163 and 2012-149.

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

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**Finding No. 4: Information Technology - Disaster Recovery Plan**


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An important element of an effective internal control system over information technology (IT) operations is a disaster recovery plan to help minimize data and asset loss in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel, the critical applications, provide for backups of critical data sets, and provide a step-by-step plan for recovery. In addition, plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The District participates in the Panhandle Area Educational Consortium (PAEC) and obtains certain IT services, such as financial, payroll, and other critical applications, from the Northwest Regional Data Center (NWRDC). The NWRDC developed an IT disaster recovery plan whereby member districts agreed to serve as alternate-processing sites for each other in the event of a disaster that interrupts critical IT operations. In addition, the District entered into an agreement with a disaster recovery company whereby the company agreed to provide, in the event of any unplanned interruption of critical business and information processing of its student records beyond the District's control, equipment and remote service and support via telephone to a location chosen by the District or to a specified vendor recovery site. However, the District had not established a written comprehensive disaster recovery plan, including assigning responsibilities for recovery activities to employees and the specific processes and procedures to be followed at the District when the NWRDC is inoperable to affect the recovery and restoration of financial, payroll, and other critical applications. Also, the plan lacked prioritization of critical operations and data, and provisions for backup personnel so that the plan is not dependent on any one individual, but identification of the District's disaster recovery team members and their respective roles and responsibilities.

Without a detailed plan for the District's disaster recovery, there is an increased risk that the District may be unable to continue critical operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations. Similar findings were noted in our report Nos. 2011-163 and 2012-149.

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**Recommendation: The District should develop a written comprehensive disaster recovery plan including assignment of employee responsibilities, prioritization of critical operations and data, and a list of backup personnel; and contingencies for service interruptions. In addition, the disaster recovery plan should be tested annually.**

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**Finding No. 5: Information Technology – Security Incident Response Plan**


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Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

Board policy provided security incident response procedures for identifying and logging significant security events, analyzing and reporting security violations and incidents, and issuing security alerts and advisories to District staff. However, the District had not established an incident response team or procedures for notification to affected parties; modification of access control policies and techniques resulting from the occurrence of security violations, incidents, or new threat assessments; or periodic review of critical system resources. Should an event occur that involves the potential or actual compromise, loss or destruction of District data or IT resources, the lack of comprehensive security incident response plan procedures and an established incident response team may result in the District's

failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources. A similar finding was noted in our report No. 2012-149.

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**Recommendation: The District should improve its IT security incident response plan procedures to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.**

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**Finding No. 6: Information Technology – Security Controls – Logging and Monitoring of System Activity**

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

Without appropriate security controls related to logging and monitoring of system activity, the risk is increased that the confidentiality, integrity and availability of District data and IT resources may be compromised. Similar findings were noted in our report Nos. 2011-163 and 2012-149.

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

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**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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**Federal Awards Finding No. 1:**

**Federal Agency: United States Department of Agriculture**

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

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

**Finding Type: Material Noncompliance and Material Weakness**

**Questioned Costs: \$45,129**

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**Allowable Costs/Cost Principles and Procurement.** OMB Circular A-87, Attachment A, Section C.1., provides, in part, that costs must be adequately documented to be allowable under Federal awards. State Board of Education (SBE) Rule 6A-1.012(5), Florida Administrative Code (FAC), provides that in lieu of requesting bids from three or more sources, school districts may make purchases at unit prices in contracts awarded by other governmental agencies when the bidder permits purchases by the school district at the same terms, conditions, and unit prices awarded in such contracts. For the 2011-12 fiscal year, the District reported Child Nutrition Cluster (CNC) expenditures totaling \$3,517,275, including \$2,066,459 for purchased food and supplies.

In June 2011, the District solicited bids for certain purchased foods, materials, and supplies, and the Board awarded contracts based on the lowest or best bids received. Also, the District chose to purchase other foods and supplies using the bid of another school district. To determine the propriety and allowability of CNC expenditures, we selected and reviewed District records supporting six transactions totaling \$139,495 for food, materials, and supplies purchased during the 2011-12 fiscal year, and noted the following:

- The District purchased \$1,140,208 of food and supplies from one vendor based on a bid and contract awarded by another school district. For two invoices totaling \$103,287, we compared the items purchased by product number per the invoice to the approved bid list and contract price. Of the 339 items purchased, 124 items totaling \$35,094 had product numbers that were not included in the approved bid list or contract. Some of the items did not have a comparable product on the bid list or contract, while other items had comparable items included on the bid list and contract but with a different product number. Although the District had established procedures to have school food service personnel review invoices, there was no documentation to evidence the District's consideration of these items as being comparable in price and quality to items on the bid list. As the District records did not evidence an established understanding of the prices paid for these food and supplies purchases, these questioned costs of \$35,094 are subject to disallowance by the grantor.
- The District purchased \$255,793 of produce, such as fruits and vegetables, from one vendor based on a District bid and contract. We tested two payments totaling \$20,073 to the vendor and noted that, for 14 items, the prices per the invoices did not agree with the prices per the bid and contract documents, resulting in an overpayment to the vendor of \$572. District personnel indicated that the invoice prices varied from bid prices due to changes in the market; however these price variances were not provided for in the bid and contract documents. In addition, 10 items purchased totaling \$9,463 were not included on the bid list or contract. As a result, these questioned costs totaling \$10,035 are subject to disallowance by the grantor.

Without procedures for ensuring items available for purchase and amounts billed to the District conform to bids and contracts, there is an increased risk that the District may not obtain goods and services at the best price consistent with acceptable quality. In addition, although SBE Rule 6A-1.012(5) FAC, allows district school boards to make purchases using bids of other governmental agencies, the rule does not relieve the District from its responsibility to demonstrate its determination that items available for purchase and amounts billed to the District conform to bids and contracts. A similar finding was noted in our report No. 2012-149.

While the exceptions noted above, resulting in \$45,129 of questioned costs, were based on our test samples of Child Nutrition Cluster expenditures and related records, we did not examine the records for each Child Nutrition Cluster expenditure. Given the likelihood that there are additional exceptions for those expenditures that were not included in our samples, the cumulative effect of all exceptions is considered to have a direct and material effect on the Child Nutrition Cluster programs.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirements regarding Allowable Costs/Cost Principles and Procurement that are applicable to the Child Nutrition Cluster programs, our report on the District's compliance with those requirements includes a qualification to that effect.

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**Recommendation: The District should enhance procedures to maintain evidence of its review and reconciliation of amounts billed for school food service purchases to bid and contract documents prior to payment for goods and services. In addition, the District should document to the grantor the allowability of the \$45,129 of questioned costs, or restore this amount to the applicable Child Nutrition Cluster programs.**

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District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

**Federal Awards Finding No. 2:****Federal Agency: United States Department of Agriculture****Pass-Through Entity: Florida Department of Education and Florida Department of Agriculture and Consumer Services****Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$136,720**

**Eligibility and Special Tests and Provisions – Verification.** Title 7, Section 245.3, Code of Federal Regulations (CFR), requires the District to establish eligibility criteria for free and reduced price meals and for free milk in conformity with the family-size income standards prescribed by the State in accordance with income eligibility guidelines published by the United States Department of Agriculture (USDA). Also, Title 7, Section 245.6a.(a), CFR, provides that the District must verify the current eligibility of households selected from a sample of applications that have been approved for free and reduced price meals. The sample must generally be drawn from error prone applications defined as within \$1,200 of the annual income limit or \$100 of the monthly income limit for free or reduced price meal eligibility. Before performing the verification process, someone other than the individual making the initial eligibility determination must review the application for accuracy.

Further, the USDA Eligibility Guidance for School Meals Manual (Eligibility Manual) requires the District to send a written notice of adverse action to all households for which benefits are to be reduced or terminated as a result of the verification procedures 10 calendar days in advance of the change. The notice must advise the household of the change in benefits, the reason for the change, that an appeal must be filed within the 10 calendar day advance notice period and the instructions on how to appeal.

The District operated a school food service program at each District school that provided meals to participating students, and the District received Federal reimbursements totaling \$3.4 million for the 2011-12 fiscal year. To determine whether the District designed and implemented procedures to effectively monitor and verify the eligibility of student receiving free and reduced price meals, we selected and reviewed 58 free and reduced price meal applications for 60 students, which included 52 students chosen by the District to perform verification procedures and noted:

- The District reduced or terminated the meal benefits of 41 of the 52 students selected for verification and sent notices of these adverse actions to respective families that identified the appeal process; however, for 30 of the 41 students, District records did not evidence that notices of adverse actions were sent to families at least 10 days before adverse action took effect and none of the notices included a statement that appeals must be made within a 10-day deadline, contrary to the USDA Eligibility Manual.
- For 4 students, District records did not evidence that the income calculations on the meal applications were accurate. Eligibility for 3 of the 4 students was changed from free to reduced price based on income documentation provided through the verification process and 1 student was approved as eligible for free meals. However, the income information documented on these applications included overtime pay and holiday pay, without a District-documented determination of whether these amounts were routine or a one-time source of income. Without such, the meal status of the 4 students may be incorrect.
- For 2 of the 52 students chosen by the District for application verification, the application was not signed by someone other than the initial approver to evidence review for accuracy, contrary to Federal regulations.

Because the District receives Federal reimbursement for the cost of meals served to students, it is important that meal status of each student be properly supported by records documenting the student's eligibility for free or reduced price meals in accordance with Federal regulations. A similar finding was noted in our report No. 2012-149.

**Reporting.** Title 7, Section 210.8, CFR, requires the District to establish internal controls that ensure the accuracy of lunch counts prior to the submission of monthly claims for reimbursement. This section also requires the District to maintain on file, each month's claim for reimbursement and all data used in the claims review process by school, as specified in Title 7, Section 210.23, CFR.

At the beginning of the 2011-12 fiscal year, the District implemented a new computer system for the school food service program. However, daily activity reports generated by the new system included transactions for free meals served, with no student name or identification number associated with each transaction, resulting in questioned costs of \$1,314 for 570 meals. For the 2011-12 fiscal year, we obtained the detail transactions that were included in the point-of-sale (POS) system, which disclosed a total of 25,930 free breakfasts and 39,349 free lunches served with no student name or identification number associated with each transaction. The District attempted to correct previously reported free breakfasts and lunches by underreporting free breakfasts by 1,780 meals and free lunches by 5,926 meals in January and February 2012. However, the District could not provide documentation that the remaining 24,150 free breakfasts and 33,423 free lunches were to students with an approved application on file. As a result, reimbursements of \$43,470 for free breakfasts and \$93,250 for free lunches, totaling \$136,720, represent questioned costs subject to disallowance by the grantor.

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**Recommendation:** The District should enhance its procedures to ensure the meal status of students is accurately assessed and documented, both initially and upon verification, in accordance with Federal regulations. The District should also enhance its procedures at the point-of-sale at each school to ensure that a student name or identification number is entered into the computer system for meals served to eligible students. In addition, the District should document to the grantor the allowability of the \$136,720 of questioned costs for the 2011-12 fiscal year or restore this amount to the applicable Child Nutrition Cluster program.

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District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

**PRIOR AUDIT FOLLOW-UP**

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-149.

The following table provides information on recurring audit findings for the Gadsden County District School Board:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
2	Audit Report No. 2012-149, Finding No. 2	Audit Report No. 2011-163, Finding No. 6
3	Audit Report No. 2012-149, Finding No. 3	Audit Report No. 2011-163, Finding No. 7
4	Audit Report No. 2012-149, Finding No. 6	Audit Report No. 2011-163, Finding No. 12
5	Audit Report No. 2012-149, Finding No. 7	NA
6	Audit Report No. 2012-149, Finding No. 8	Audit Report No. 2011-163, Finding No. 13
Federal Awards Finding No. 1	Audit Report No. 2012-149, Federal Awards Finding No. 4	NA
Federal Awards Finding No. 2	Audit Report No. 2012-149, Federal Awards Finding No. 1	NA

NA – Not applicable

**MANAGEMENT’S RESPONSE**

Management’s response is included as Exhibit A.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**

*GADSDEN COUNTY  
DISTRICT SCHOOL BOARD  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2012*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2010-166 (2)	Title I Grants to Local Educational Agencies (CFDA 84.010); Special Education – Grants to States (CFDA No. 84.027) - Allowable Costs/Cost Principles	The District did not document the allowability of Federal costs for an electronic parent notification system and costs for antiviral software and servers, resulting in Title I and Special Education program questioned costs, sustained by the grantor, of \$6,147 and \$32,242.25, respectively.	Corrected	The District restored questioned costs of \$6,147 and \$32,242.25 to the Title I and Special Education programs, respectively, in the 2010-11 fiscal year.
2011-163 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Improving Teacher Quality (CFDA No. 84.367) - Allowable Costs/Cost Principles	District personnel did not always properly document the allowability of Title I and Improving Teacher Quality program expenditures, resulting in questioned costs of \$138,756.04 and \$86,308.35, respectively.	Corrected	The Grantor reviewed the material provided and did not sustain the finding of questioned costs totaling \$170,504.75. The remaining questioned costs of \$45,627.89 and \$8,931.75 were restored to the Title I and Improving Teacher Quality programs, respectively.
2011-163 (5)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389) and Improving Teacher Quality (CFDA No. 84.367) - Special Tests and Provisions - Private School Participation	District procedures did not ensure that private schools were provided the opportunity to participate in the Federally-funded programs, resulting in \$31,043.91 of questioned costs in the Title I program.	Partially corrected	The District took corrective action. However, the grantor has not resolved the questioned costs.
2012-149 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Eligibility, Reporting, and Special Tests and Provisions	District procedures were insufficient to ensure that the meal status of students was accurately assessed and documented in accordance with Federal regulations for the Child Nutrition Cluster programs, resulting in \$1,483 of questioned costs.	Not corrected	The grantor has not resolved the questioned costs. Also, a similar finding was noted in the 2011-12 fiscal year. The District has taken corrective action in the 2012-13 fiscal year.
2012-149 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility	Title I schoolwide program resources were not properly allocated to two schools, resulting in \$168,708 of questioned costs.	Partially corrected	District has fully corrected its procedures. The grantor has not resolved the questioned costs.
2012-149 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Allowable Costs/Cost Principles	District records did not document the necessity and reasonableness for holding a Title I program conference approximately 140 miles from the District office, resulting in \$27,680 of questioned costs.	Partially corrected	District maintains that the questioned costs were allowable. The grantor has not resolved the questioned costs.
2012-149 (4)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles and Procurement	District records did not always evidence review and reconciliation of school food service charges to bid and contract documents before payment for goods and services were made for the Child Nutrition programs, resulting in \$42,342 of questioned costs.	Not corrected	The District has taken corrective action in the 2012-13 fiscal year. Remaining corrective actions require Board approval of policy changes. The grantor has not resolved the questioned costs. Also, a similar finding was noted in the 2011-12 fiscal year.
2012-149 (5)	Special Education – Grants to States (CFDA No. 84.027) - Period of Availability	The District charged expenditures to the Special Education program for obligations that were not incurred within the grant period, resulting in \$26,891 of questioned costs.	Partially corrected	The District maintains that this error was a random clerical mistake and not systemic in nature. The grantor has not resolved the questioned costs.

EXHIBIT A  
MANAGEMENT'S RESPONSE

**The School Board of Gadsden County**



*"Building A Brighter Future"*

**REGINALD C. JAMES**  
SUPERINTENDENT OF SCHOOLS

35 MARTIN LUTHER KING, JR. BLVD  
QUINCY, FLORIDA 32351  
TEL: (850) 627-9651  
FAX: (850) 627-2760  
<http://www.gcps.k12.fl.us>

February 22, 2013

David W. Martin, CPA  
Auditor General  
111 West Madison Street  
Tallahassee, Florida 32302

Dear Mr. Martin:

Enclosed are the revised responses to the Preliminary and Tentative Audit Findings from your office for the fiscal year ended June 30, 2012.

Please contact me if you have any questions or need additional information.

Sincerely,

Reginald C. James  
Superintendent of Schools

RCJ:bw

ERIC F. HINSON  
DISTRICT NO. 1  
HAVANA, FL 32333

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

ISAAC SIMMONS, JR.  
DISTRICT NO. 3  
CHATTAHOOCHEE, FL 32324  
GREENSBORO, FL 32330

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

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

BOARD MEETS FOURTH TUESDAY OF EACH MONTH  
EQUAL OPPORTUNITY EMPLOYER

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**

**Gadsden County School District**

**Response to Preliminary and Tentative Findings to the Auditor General Report  
For the Fiscal Year ended June 30, 2012**

ADDITIONAL MATTERS

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

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

**District Response:**

**The District will improve its financial reporting procedures to ensure that financial statement accounts and transactions are properly reported.**

*Finding No. 2: The Board had not established a documented process to identify instruction personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.*

*Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.*

**District Response:**

**The Board will establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes and the contract with the labor union.**

*Finding No. 3: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.*

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

**District Response:**

**The District will enhance its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education. The District will also discuss this matter with the Florida Department of Education.**

*Finding No. 4: The District had not developed a written comprehensive information technology (IT) disaster recovery plan.*

*Recommendation: The District should develop a written comprehensive disaster recovery plan including assignment of employee responsibilities, prioritization of critical operations and data, and a list of backup personnel; and contingencies for service interruptions. In addition, the disaster recovery plan should be tested annually.*

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**

**District Response:**

**The District contracted with an independent firm to evaluate the current state of its Information Technology operation and make specific recommendations to correct weaknesses noted. When the report is finalized, the District will address its information technology weaknesses including a comprehensive disaster recovery plan.**

*Finding No. 5: The District's IT security incident response plan procedures could be enhanced.*

*Recommendation: The District should improve its IT security incident response plan procedures to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.*

**District Response: As previously mentioned, the District contracted with an independent firm to evaluate the current state of its Information Technology operation and make specific recommendations to correct weaknesses noted. When the report is finalized, the District will address its information technology weaknesses including an enhanced IT security incident response plan.**

*Finding No. 6: District's IT security controls related to logging and monitoring of system activity needed improvement.*

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

**District Response:**

**The Deputy Superintendent will advise the District's Information Technology Director in writing to immediately set system logging to the highest level and to raise the monitoring level to a higher level. Additional actions may be taken in response to the recommendations in the final report of the aforementioned independent information technology firm.**

**FEDERAL AWARDS FINDINGS**

*Federal Awards Finding No. 1: District records did not always evidence proper review of school food service charges before payment for goods and services were made, resulting in \$45,129 of questioned costs for the Child Nutrition Cluster program.*

*Recommendation: The District should enhance procedures to maintain evidence of its review and reconciliation of amounts billed for school food service purchases to bid and contract documents prior to payment for goods and services. In addition, the District should document to the grantor the allowability of the \$45,129 of questioned costs, or restore this amount to the applicable Child Nutrition Cluster programs.*

**District Response:**

**The District has enhanced its procedures through improvements to its food services review and reconciliations. Such improvements include the following:**

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

- Effective July 1, 2012, the functional control of purchasing, accounts payable, and record keeping was transferred from the food service offices to the Finance Department's purchasing and accounts payable offices. This change improved documentation through the standardization of purchasing, pre-audit, and record keeping processes.
- Effective July 1, 2012, the District joined 38 other Florida school districts that comprise the Power Buying Group as a participating member. The Power Buying Group has awarded a contract to U.S. Foods Inc. and the District purchases from that bid list.
  - The Power Buying Group contracts with an independent firm to biannually determine whether U.S. Foods is complying with the applicable Federal regulations, State laws, and the terms of the contract with the Power Buying Group. In the September 2012 evaluation or audit, the independent firm observed that certain non-bid items were purchased by districts and recommendations were made to preclude recurrence. Power Buying Group personnel will ensure that the recommendations or comparable controls are implemented by U.S. Foods.
  - U.S. Foods maintains a separate website for members of the Power Buying Group. At that website, only bid items and certain additions and substitute items that do not require a rebid, are available.
  - Should the District wish to purchase an item from U.S. Foods that was not on the bid list, the District using its normal purchasing procedures, will order using a separate vendor number and a separate web site. Such orders can only be placed by the District's Food Service Production Coordinator, and deliveries of such items come to the office of the Food Service Production Coordinator who directs distribution. U.S. Foods submits a separate invoice and payment is made by separate check.
  - As a point of information, U.S. Foods provides for substitutions of equal or superior quality, if bid list items are out of stock; therefore, it is reasonable to expect that some items will appear on the U.S. Foods' invoices that cannot be found on the bid list. However, the invoiced price should agree with the item ordered from the bid list.
- On August 21, 2012, the Gadsden County School Board committed to adopt a policy, similar to one adopted by the Leon County School Board, that exempts the purchase of produce, such as fruits and vegetables, from competitive bidding. Adverse weather conditions affect market prices and can result in highly volatile prices. In addition, produce suppliers guarantee prices only for short periods of time. The Gadsden County School Board is currently addressing and updating all of its policies. The produce exemption from competitive bidding is a policy that will be formally adopted before the end of May, 2013.

**EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE**

*Federal Awards Finding No. 2: District procedures were insufficient to ensure that the meal status of students was accurately assessed and documented, resulting in \$136,720 of questioned costs for the Child Nutrition Cluster program.*

*Recommendation: The District should enhance its procedures to ensure the meal status of students is accurately assessed and documented, both initially and upon verification, in accordance with Federal regulations. The District should also enhance its procedures at the point of sale at each school to ensure that a student name or identification number is entered into the computer system for meals served to eligible students. In addition, the District should document to the grantor the allowability of the \$136,720 of questioned costs for the 2011-12 fiscal year or restore this amount to the applicable Child Nutrition Cluster program.*

**District Responses:**

**Bullet #1 in Audit Finding**

Notices of adverse actions for the 41 students were provided at least 10 days prior to the effective dates of the actions, and the parents were advised of their right to appeal the actions prior to their effective dates. It is the District's position is that, for students with free or reduced price meal status changes, notices of adverse action were initially printed and sent home with the students. Subsequently, additional copies were printed to save with the District's verification files; however, because the printed date changes automatically to reflect the date printed, the dates on the notices of adverse action filed at the District do not necessarily correspond with the dates the notices were originally sent home with the students. The District plans to require its data system vendor to stop automatically populating the date field on the notice template. This will improve the audit documentation without having to print a hard copy for the audit file.

**Bullet #2 in Audit Finding**

Federal regulations require eligibility determinations to be based on a representative pay period of the parent(s). The District agrees that it could have approached the goal of selecting a representative pay period more logically in the instances questioned. In the future, more time will be spent evaluating and documenting the more challenging eligibility determinations.

**Bullet #3 in Audit Finding**

The District agrees with the finding and will endeavor to ensure the required review is documented in 100% of its eligibility determinations.

**Reporting:**

Based on the preliminary and tentative finding, the District has already opened a dialog with the Florida Department of Agriculture and Consumer Services to determine what steps the District needs to take to resolve the questioned costs. As the District was implementing its new food services data system, it was necessary to enter some meals served to eligible students into the system without names, because the data for some of the eligible students had not been uploaded. To support these entries, the District maintained manual records. The distribution of the entries with no names by school and over time is shown on the attached charts. The charts show that the District needs to

**EXHIBIT A (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

enhance its procedures to get the student data loaded in a more timely fashion, and that will be done.

Forty-six percent (46%) of the questioned transactions occurred at the Carter Parramore Academy and Stewart Street Elementary School. These schools serve meals to students from other schools that are too small to justify the expense of a cafeteria. The cafeteria cash registers could not access student data from the off-site schools. This issue was resolved after the audit period ended. In the charts for these two schools, the attendance at the off-site schools is netted away. This methodology is particularly valid for Stewart Street since most, if not all, of the off-site meals are delivered to pre-kindergartners that are categorically eligible, and the District is required to feed them if they are in attendance.

EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE

GADSDEN COUNTY SCHOOLS

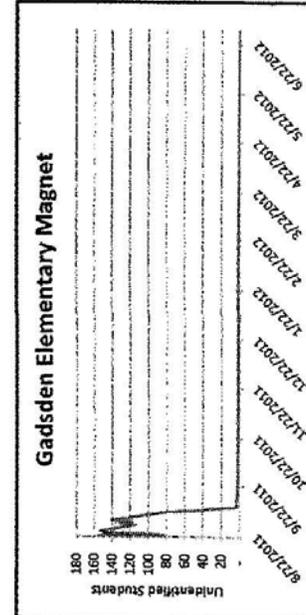
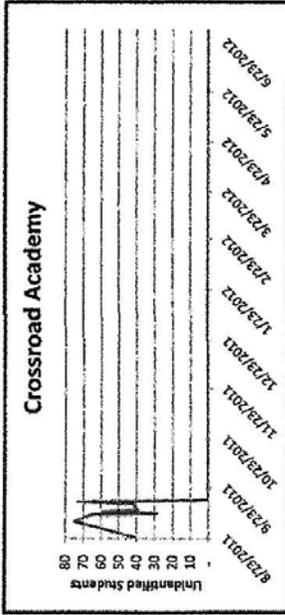
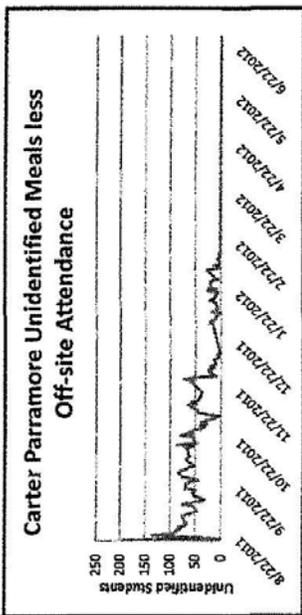
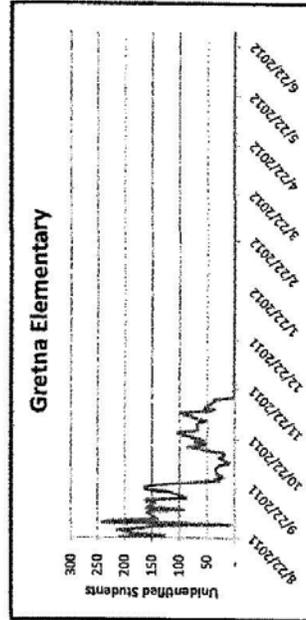
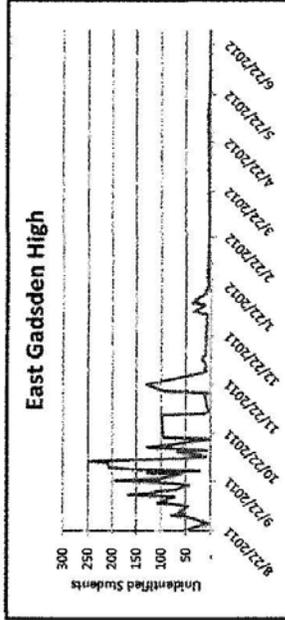
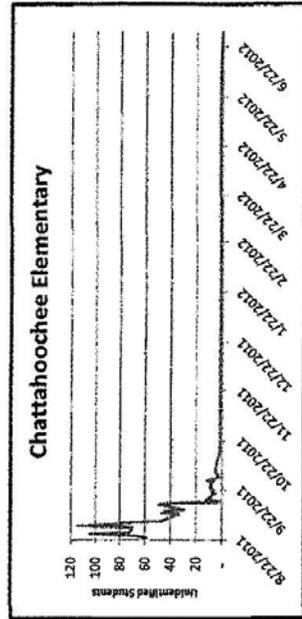


EXHIBIT A (CONTINUED)  
MANAGEMENT'S RESPONSE

GADSDEN COUNTY SCHOOLS

