

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2013



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Diane L. Scott, Ph.D., Vice Chair from 11-20-12	1
E. Hugh Winkles, Chair to 11-19-12	2
M. Diane Coleman, Chair from 11-20-12	3
JoAnn J. Simpson to 11-19-12, Vice Chair	4
Jennifer G. Granse from 11-20-12	4
Scott T. Peden	5

Timothy S. Wyrosdick, 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 Joan E. Valle, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Nathaniel Seabrooks, CPA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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

SANTA ROSA COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements.....	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	21
Notes to Financial Statements	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	46
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	48
Notes to Required Supplementary Information.....	49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	50
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	52
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	54
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	56
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	69
EXHIBIT A MANAGEMENT'S RESPONSE	70

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Controls over electronic funds transfers could be enhanced.

Finding No. 2: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 3: Controls over monitoring school bus drivers could be enhanced.

Finding No. 4: District policies and procedures were not adequate to identify and prevent potential conflicts of interest.

Finding No. 5: The District's controls over contractual services could be enhanced.

Finding No. 6: The District did not allocate purchasing card program rebates generated by restricted resources to the appropriate District funds.

Finding No. 7: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 8: The District restricted \$702,329 of unrestricted resources in the capital projects fund; however, District records did not evidence the specific intended future use of the resources.

Finding No. 9: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 10: VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Finding No. 11: The District could enhance its procedures to ensure that, in the future, the required number of VIP options is offered.

Finding No. 12: District records did not evidence that required background screenings were performed for VIP provider employees and contracted personnel.

Finding No. 13: Procedures needed to be enhanced to ensure that qualified VIP students are provided computing resources.

Finding No. 14: The District needed to enhance its procedures to ensure that residual VIP funds are properly restricted for use as required by State law.

Finding No. 15: The District's information technology (IT) disaster recovery plan needed improvement.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Head Start, 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.

Audit Objectives and Scope

Our audit objectives were to determine whether the Santa Rosa 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 previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Rosa County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 37 percent of the assets and 80 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely on the reports of the other auditors.

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

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Santa Rosa County District School Board as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note II to the basic financial statements, Capstone Academy, LLC (Charter School), was not reported as a discretely presented component unit in prior fiscal years; however, the Charter School now meets the criteria of being a component unit of the District and, therefore, is reported for the 2012-13 fiscal year. In addition, the Santa Rosa Education Foundation, Inc. (Foundation), has been reported as a discretely presented component unit in prior fiscal years; however, the Foundation no longer meets the criteria of being a component unit of the District and, therefore, is not reported for the 2012-13 fiscal year. These matters affect the comparability of amounts reported in the financial statements for the 2012-13 fiscal year with amounts reported in the financial statements for the 2011-12 fiscal year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Santa Rosa 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Santa Rosa 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, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- As of June 30, 2013, assets exceed liabilities by \$236,833,740. In total, net position decreased by \$2,546,748, which represents a 1.06 percent decrease from the 2011-12 fiscal year.
- General revenues total \$195,515,640, or 93.28 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$14,094,997, or 6.72 percent of all revenues.
- Expenses total \$212,157,385. Only \$14,094,997 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$15,118,178, which is \$4,225,423 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$10,555,701, or approximately 6.50 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents three separate legal entities in this report. The Learning Academy, Inc., and Capstone Academy, LLC, are legally separate organizations and component units that are included

in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Santa Rosa School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund and the Special Revenue – Federal Economic Stimulus Fund 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 the financial resources of the District's pre-tax flexible benefits plan and the school internal funds which are used to account for moneys collected at the various schools in connection with school, student athletic, class, and club activities.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2013, compared to net position as of June 30, 2012:

	Net Position, End of Year	
	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 44,020,552	\$ 50,375,734
Capital Assets	265,283,217	265,426,591
Total Assets	309,303,769	315,802,325
Long-Term Liabilities	67,675,172	70,353,886
Other Liabilities	4,794,857	6,067,951
Total Liabilities	72,470,029	76,421,837
Net Position:		
Net Investment in Capital Assets	223,166,213	221,033,402
Restricted	21,718,594	23,357,906
Unrestricted Deficit	(8,051,067)	(5,010,820)
Total Net Position	\$ 236,833,740	\$ 239,380,488

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

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

The key elements of the changes in the District’s net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-13	6-30-12
Program Revenues:		
Charges for Services	\$ 6,867,891	\$ 6,934,797
Operating Grants and Contributions	6,280,455	6,182,848
Capital Grants and Contributions	946,651	1,096,915
General Revenues:		
Property Taxes, Levied for Operational Purposes	49,682,104	52,404,893
Property Taxes, Levied for Capital Projects	11,084,435	11,264,162
Local Sales Taxes	6,870,007	6,473,971
Grants and Contributions Not Restricted to Specific Programs	125,052,914	116,792,770
Unrestricted Investment Earnings	231,495	269,324
Miscellaneous	2,594,685	3,461,055
Special Item - Grant Reimbursement		(1,746,187)
Total Revenues	209,610,637	203,134,548
Functions/Program Expenses:		
Instruction	111,710,705	111,318,614
Pupil Personnel Services	9,192,655	8,987,144
Instructional Media Services	2,456,306	2,443,363
Instruction and Curriculum Development Services	5,851,983	5,904,570
Instructional Staff Training Services	2,311,538	2,453,027
Instruction Related Technology	4,382,608	3,619,251
School Board	486,844	395,905
General Administration	1,094,374	1,069,727
School Administration	12,326,692	12,421,968
Facilities Acquisition and Construction	1,357,618	1,482,830
Fiscal Services	1,112,208	1,121,542
Food Services	11,255,482	11,087,778
Central Services	2,536,704	2,250,844
Pupil Transportation Services	12,533,415	12,464,142
Operation of Plant	12,601,240	12,248,048
Maintenance of Plant	7,390,923	7,421,846
Administrative Technology Services	1,665,019	1,637,395
Community Services	2,382,598	2,080,844
Interest on Long-Term Debt	2,231,393	2,290,471
Unallocated Depreciation Expense	7,277,080	6,773,521
Total Functions/Program Expenses	212,157,385	209,472,830
Change in Net Position	(2,546,748)	(6,338,282)
Net Position - Beginning	239,380,488	245,718,770
Net Postion - Ending	\$ 236,833,740	\$ 239,380,488

Grants and contributions not restricted to specific programs represent 59.66 percent of total governmental revenues for the 2012-13 fiscal year. Grants and contributions not restricted to specific programs increased \$8,260,144 or 7.07 percent, primarily due to increases in Florida Education Finance Program (FEFP) funds, class size reduction funds, and school recognition funds. 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.

Instruction expenses represent 52.65 percent of total governmental expenditures for the 2012-13 fiscal year.

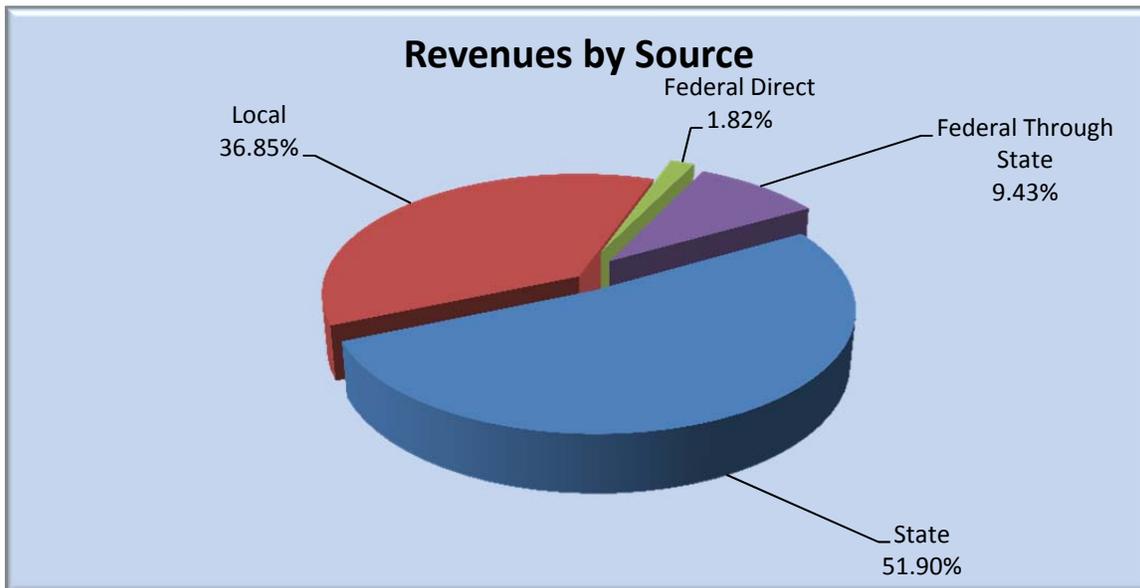
FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$5,082,088 during the fiscal year to \$39,225,695 at June 30, 2013. Approximately 25 percent of this amount is unassigned fund balance (\$9,971,336), which is available for spending at the District’s discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$345,407), 2) restricted for particular purposes (\$25,026,195), 3) committed for particular purposes (\$2,596,063), or 4) assigned for particular purposes (\$1,286,694).

In the governmental funds, revenues by source for the 2012-13 fiscal year were as follows:



The largest revenue source is the State of Florida (51.90 percent). Revenues from State sources for current operations are primarily received through the FEFP funding formula. Other State revenues primarily fund specific projects. State revenues increased by \$8,001,893, or 7.95 percent, primarily due to increases in FEFP funding, class size reduction funds, and school recognition 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 \$9,971,336, while the total fund balance is \$15,118,178. As a measure of the General Fund's liquidity, it may be useful to compare the assigned and unassigned fund balance to General Fund total revenues. The total assigned and unassigned fund balance represents 6.50 percent of total General Fund revenues, while total fund balance represents approximately 9.30 percent of total General Fund revenues.

Total fund balance decreased by \$4,225,423. Key factors impacting the change in fund balance are as follows:

- Decreases in the local property tax rate and property values resulted in decreased tax revenues of \$2,722,789.
- Total expenditures increased by \$2,331,813, or 1.38 percent, mainly due to increases in expenditures for instruction, instruction related technology, and operation of plant.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$511,242 each, and the funding was mainly used for instructional staff training. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Activity in this fund decreased substantially due to a reduction of Federal stimulus program funding.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$4,669,644, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$2,466,494, or 34.56 percent, during the 2012-13 fiscal year, primarily due to reductions in property tax collections combined with ongoing intentional spend down of resources to meet the District's capital outlay needs. It should be noted that \$1,988,769 of fund balance has been encumbered for specific projects.

The Capital Projects – Other Fund has a total fund balance of \$15,338,657, of which \$14,636,328 is restricted for financial resources generated by various capital funding sources. The fund balance increased by \$2,239,573, or 17.10 percent, during the 2012-13 fiscal year, primarily due to a decrease in expenditures for new construction. It should be noted that \$5,885,207 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2012-13 fiscal year, the District amended its General Fund budget several times; however, final budgeted revenues and expenditures were in line with original budgeted amounts.

Actual revenues are in line with the final budgeted amounts, while actual expenditures are \$6,605,723 less than final budgeted amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$6,787,052.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, is \$265,283,217 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

Major capital asset events included the following:

- During the current fiscal year, the District completed multiple projects, including classroom additions and cafeteria expansions.
- At June 30, 2013, construction in progress includes classroom additions, kitchen expansions/renovations, ball field houses, and press box renovations.

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

Long-Term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$45,611,037, comprised of \$5,284,288 of bonds payable and \$40,326,749 of certificates of participation payable. During the 2012-13 fiscal year, retirement of debt totaled \$2,536,084.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent for Finance, Santa Rosa County District School Board, 5086 Canal Street, Milton, Florida 32570. Information is also available on the web at <http://www.santarosa.k12.fl.us/finance>.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 111,710,705	\$ 1,993,808	\$	\$
Pupil Personnel Services	9,192,655			
Instructional Media Services	2,456,306			
Instruction and Curriculum Development Services	5,851,983			
Instructional Staff Training Services	2,311,538			
Instruction Related Technology	4,382,608			
School Board	486,844			
General Administration	1,094,374			
School Administration	12,326,692			
Facilities Acquisition and Construction	1,357,618			946,651
Fiscal Services	1,112,208			
Food Services	11,255,482	4,609,101	6,280,455	
Central Services	2,536,704			
Pupil Transportation Services	12,533,415	264,982		
Operation of Plant	12,601,240			
Maintenance of Plant	7,390,923			
Administrative Technology Services	1,665,019			
Community Services	2,382,598			
Unallocated Interest on Long-Term Debt	2,231,393			
Unallocated Depreciation Expense*	7,277,080			
Total Governmental Activities	\$ 212,157,385	\$ 6,867,891	\$ 6,280,455	\$ 946,651
Component Units				
Charter Schools	\$ 1,349,020	\$ 0	\$ 20,513	\$ 24,060
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Adjustment to Beginning Net Position				
Net Position - Beginning, as Adjusted				
Net Position - Ending				

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

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

<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Primary Government</u>	<u>Component Units</u>
<u>Governmental</u>	
<u>Activities</u>	
\$ (109,716,897)	\$
(9,192,655)	
(2,456,306)	
(5,851,983)	
(2,311,538)	
(4,382,608)	
(486,844)	
(1,094,374)	
(12,326,692)	
(410,967)	
(1,112,208)	
(365,926)	
(2,536,704)	
(12,268,433)	
(12,601,240)	
(7,390,923)	
(1,665,019)	
(2,382,598)	
(2,231,393)	
(7,277,080)	
<u>(198,062,388)</u>	
	<u>(1,304,447)</u>
49,682,104	
11,084,435	
6,870,007	
125,052,914	1,290,081
231,495	
<u>2,594,685</u>	<u>1,298</u>
<u>195,515,640</u>	<u>1,291,379</u>
<u>(2,546,748)</u>	<u>(13,068)</u>
239,380,488	359,158
	<u>22,176</u>
<u>239,380,488</u>	<u>381,334</u>
<u>\$ 236,833,740</u>	<u>\$ 368,266</u>

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	General Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS		
Cash and Cash Equivalents	\$ 18,501,105	\$
Investments	26,578	
Accounts Receivable	20,956	
Due from Other Agencies	87,099	10,598
Inventories	132,396	
	<u>18,768,134</u>	<u>10,598</u>
TOTAL ASSETS	\$ 18,768,134	\$ 10,598
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 2,183,451	\$ 1,295
Payroll Deductions and Withholdings	1,026,756	367
Temporary Negative Cash		8,936
Accounts Payable	134,172	
Construction Contracts Payable - Retainage		
Due to Other Agencies	690	
Deposits Payable		
Estimated Insurance Claims Payable	304,887	
	<u>3,649,956</u>	<u>10,598</u>
Total Liabilities	3,649,956	10,598
Fund Balances:		
Nonspendable:		
Inventory	132,396	
Fund B Investments	26,578	
Total Nonspendable Fund Balance	<u>158,974</u>	
Restricted for:		
State Required Carryover Programs	1,807,440	
Food Service		
Debt Service		
Capital Projects		
Total Restricted Fund Balance	<u>1,807,440</u>	
Committed for:		
School Based Budgets	143,490	
Board Approved Carryover	2,452,573	
Total Committed Fund Balance	<u>2,596,063</u>	
Assigned for:		
Office and Fee Based Budgets	584,365	
Capital Projects		
Total Assigned Fund Balance	<u>584,365</u>	
Unassigned Fund Balance	<u>9,971,336</u>	
Total Fund Balances	15,118,178	
TOTAL LIABILITIES AND FUND BALANCES	\$ 18,768,134	\$ 10,598

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,806,734	\$ 15,105,173	\$ 2,663,508	\$ 41,076,520
11,357	5,246	186,443	213,021
12,105	607,991	1,736,472	37,559
<u>12,105</u>	<u>607,991</u>	<u>115,727</u>	<u>248,123</u>
<u>\$ 4,830,196</u>	<u>\$ 15,718,410</u>	<u>\$ 4,702,150</u>	<u>\$ 44,029,488</u>
\$	\$	\$ 237,357	\$ 2,422,103
93,213	287,061	100,467	1,127,590
67,339	92,692	127,473	8,936
<u>160,552</u>	<u>379,753</u>	<u>169</u>	<u>641,919</u>
		137,468	160,031
		<u>304,887</u>	<u>859</u>
		602,934	137,468
			<u>304,887</u>
			4,803,793
		115,727	248,123
		70,706	97,284
		<u>186,433</u>	<u>345,407</u>
			1,807,440
		1,572,810	1,572,810
4,669,644	14,636,328	2,190,252	2,190,252
<u>4,669,644</u>	<u>14,636,328</u>	<u>149,721</u>	<u>19,455,693</u>
		<u>3,912,783</u>	<u>25,026,195</u>
			143,490
			<u>2,452,573</u>
			<u>2,596,063</u>
			584,365
	702,329		702,329
	<u>702,329</u>		<u>1,286,694</u>
			<u>9,971,336</u>
4,669,644	15,338,657	4,099,216	39,225,695
<u>\$ 4,830,196</u>	<u>\$ 15,718,410</u>	<u>\$ 4,702,150</u>	<u>\$ 44,029,488</u>

SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Governmental Funds \$ 39,225,695

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 265,283,217

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

Certificates of Participation Payable	\$	40,326,749	
Bonds Payable		5,284,288	
Compensated Absences Payable		18,717,462	
Other Postemployment Benefits Payable		3,346,673	(67,675,172)

Net Position - Governmental Activities **\$ 236,833,740**

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

THIS PAGE INTENTIONALLY LEFT BLANK.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Special Revenue - Federal Economic Stimulus Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
Revenues			
Intergovernmental:			
Federal Direct	\$ 871,442	\$	\$
Federal Through State and Local State	484,660	511,242	
	107,304,144		
Local:			
Property Taxes	49,682,104		11,084,435
Local Sales Taxes			
Charges for Services - Food Service			
Miscellaneous	4,172,517		26,195
Total Local Revenues	<u>53,854,621</u>		<u>11,110,630</u>
Total Revenues	<u>162,514,867</u>	<u>511,242</u>	<u>11,110,630</u>
Expenditures			
Current - Education:			
Instruction	103,581,294		
Pupil Personnel Services	7,075,288		
Instructional Media Services	2,366,748		
Instruction and Curriculum Development Services	2,785,951	49,067	
Instructional Staff Training Services	815,763	447,206	
Instruction Related Technology	3,580,172		
School Board	489,185		
General Administration	623,428	14,969	
School Administration	12,167,705		
Facilities Acquisition and Construction	34,097		809,554
Fiscal Services	1,112,902		
Food Services			
Central Services	2,461,260		
Pupil Transportation Services	12,530,891		
Operation of Plant	12,561,224		
Maintenance of Plant	4,099,350		576,780
Administrative Technology Services	1,587,209		
Community Services	1,670,975		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	107,768		5,075,821
Other Capital Outlay	1,289,106		
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>170,940,316</u>	<u>511,242</u>	<u>6,462,155</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,425,449)</u>		<u>4,648,475</u>
Other Financing Sources (Uses)			
Transfers In	4,428,237		
Insurance Loss Recoveries	83,647		
Transfers Out	(311,858)		(7,114,969)
Total Other Financing Sources (Uses)	<u>4,200,026</u>		<u>(7,114,969)</u>
Net Change in Fund Balances	<u>(4,225,423)</u>		<u>(2,466,494)</u>
Fund Balances, Beginning	19,343,601		7,136,138
Fund Balances, Ending	<u>\$ 15,118,178</u>	<u>\$ 0</u>	<u>\$ 4,669,644</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	2,931,697	3,803,139
	18,770,884	19,766,786
135,121	1,270,832	108,710,097
		60,766,539
6,870,007		6,870,007
	4,609,101	4,609,101
565,550	163,152	4,927,414
<u>7,435,557</u>	<u>4,772,253</u>	<u>77,173,061</u>
<u>7,570,678</u>	<u>27,745,666</u>	<u>209,453,083</u>
	7,921,729	111,503,023
	2,074,510	9,149,798
	36,549	2,403,297
	2,913,833	5,748,851
	1,101,579	2,364,548
	239,160	3,819,332
		489,185
	452,891	1,091,288
	186,072	12,353,777
206,670	182,117	1,232,438
		1,112,902
	11,159,764	11,159,764
	45,878	2,507,138
	33,291	12,564,182
	44,064	12,605,288
632,148	8,998	5,317,276
		1,587,209
	665,993	2,336,968
3,512,260	428,944	9,124,793
113,740	34,738	1,437,584
	2,480,000	2,480,000
	<u>2,231,393</u>	<u>2,231,393</u>
<u>4,464,818</u>	<u>32,241,503</u>	<u>214,620,034</u>
<u>3,105,860</u>	<u>(4,495,837)</u>	<u>(5,166,951)</u>
5,640	3,866,093	8,299,970
1,216		84,863
<u>(873,143)</u>		<u>(8,299,970)</u>
<u>(866,287)</u>	<u>3,866,093</u>	<u>84,863</u>
2,239,573	(629,744)	(5,082,088)
<u>13,099,084</u>	<u>4,728,960</u>	<u>44,307,783</u>
<u>\$ 15,338,657</u>	<u>\$ 4,099,216</u>	<u>\$ 39,225,695</u>

**SANTA ROSA 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, 2013**

Net Change in Fund Balances - Governmental Funds \$ (5,082,088)

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. The following details the amount of depreciation expense in excess capital outlays in the current fiscal year:

Capital Outlay - Facilities Acquisition and Construction - Capitalized	\$ 9,124,793	
Capital Outlay - Other Capital Outlay - Capitalized	1,437,584	
Depreciation Expense	<u>(10,685,222)</u>	(122,845)

Capital Asset additions not requiring capital outlays during the current fiscal year increase net position in the government-wide statement, but are not financial resources and, therefore, are not reported in the governmental funds. 152,976

In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (173,505)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The following details the amount of repayments in the current fiscal year:

Bonds Payable	\$ 760,000	
Certificates of Participation	<u>1,720,000</u>	2,480,000

Governmental funds report the effects of issuance costs, premiums, discounts, and similar items in the fiscal year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities:

Bonds Payable - Amortized Premium	\$ 6,720	
Certificates of Participation - Amortized Premium	<u>49,364</u>	56,084

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year. 186,846

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. (44,216)

Change in Net Position - Governmental Activities \$ (2,546,748)

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,971,051
Investments	<u>20,000</u>
TOTAL ASSETS	<u>\$ 2,991,051</u>
LIABILITIES	
Employee Flexible Benefits Payable	\$ 124,177
Accounts Payable	265,139
Internal Accounts Payable	<u>2,601,735</u>
TOTAL LIABILITIES	<u>\$ 2,991,051</u>

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Santa Rosa County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense that is clearly identifiable to a function is allocated to the function and the remaining depreciation expense is reported as unallocated.

B. Reporting Entity

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

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

Blended Component Unit. A blended component unit, is in substance, part of the primary District's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as a fund of the District. The Santa Rosa School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note III.H. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

The Learning Academy, Inc., and Capstone Academy, LLC, (charter schools) are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under a charter approved by their sponsor, the Santa Rosa County District School Board. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to provide specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the Charter Schools' audited financial statements for the fiscal year ended June 30, 2013. The audit reports are filed in the District's administrative offices.

C. Basis of Presentation: Government-wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

new construction, renovation and remodeling projects, and debt service payments on certificates of participation.

- Capital Projects – Other – to account for the various financial resources (e.g., certificates of participation, capital outlay sales tax, hurricane-related loss recoveries) to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

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

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 30 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

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

1. Cash and Cash Equivalents

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

As of June 30, 2013, the special revenue funds cash accounts reflect a negative cash balance that represents timing differences between expenditures and the receipt of the reimbursement from the cash drawdown request. As the cash is part of pooled accounts, no cash account is overdrawn per bank records at June 30, 2013.

2. Investments

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, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. 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.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Investments made locally consist of certificates of deposit which are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories

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

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000, except for buildings and improvements other than buildings which are defined as assets costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	10 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	15 years
Audio Visual Materials and Computer Software	5 - 7 years

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

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. Debt premiums and discounts are deferred and amortized over the life of the debt. Bonds and certificates of participation payable are reported net of the applicable premium or discount.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation. In July 2012, the Board gave its approval to commit certain project balances during the budget process.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by vote authorized

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent 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. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

3. District Property Taxes

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

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

The Board adopted the 2012 tax levy on September 6, 2012. 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 Santa Rosa County Tax Collector at fiscal year-end but not yet remitted to the District.

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

4. Capital Outlay Surtax

In March 2007, the voters of Santa Rosa County (County) approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective October 1, 2008, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

5. 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.

6. Compensated Absences

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

II. ACCOUNTING CHANGES

Governmental Accounting Standards Board Statement No. 61 The District implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, effective for the 2012-13 fiscal year. This Statement, in part, modifies certain requirements for inclusion of component units in the financial reporting entity. As the District is required to operate, control, supervise, and fund public schools in the District, including Capstone Academy, LLC (Charter School), the Charter School is presented as a discretely presented component unit of the District. However, in prior fiscal years, the Charter School was excluded from the District's reporting entity, affecting the comparability of amounts reported on the financial statements for the 2012-13 fiscal year with the financial statements for the 2011-12 fiscal year.

The Santa Rosa Education Foundation, Inc. (Foundation), has been reported as a discretely presented component unit in prior fiscal years; however, the Foundation's financial transactions are no longer considered quantitatively significant to the District. As such, the Foundation no longer meets the criteria for inclusion as a component unit, and is not reported in the District's financial statements for the 2012-13 fiscal year, affecting the comparability of amounts reported on the financial statements for the 2012-13 fiscal year with the financial statements for the 2011-12 fiscal year.

Due to the implementation of GASB Statement No. 61 as discussed above, the beginning net position of the components units' column of the Statement of Activities was adjusted to reflect the beginning balance of the Charter School. The inclusion of the Charter School increased the beginning net position of the component units column by \$125,330. Also, as discussed above, the beginning net position of the component units' column of the Statement of Activities was adjusted to remove the beginning fund balance of the Foundation, decreasing beginning net position of the component units column by \$103,154. The net effect of these two adjustments is an increase in beginning net position of \$22,176 and is shown on the Statement of Activities as an Adjustment to Beginning Net Position.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

B. Investments

As of June 30, 2013, the District has the following investments and maturities:

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)(2)	40 Day Average	\$ 2,481,662
Fund B (2)	3.98 Year Average	97,284
Debt Service Accounts	6 Months	115,737
Certificates of Deposit (1)	August 23, 2013	20,000
Total Investments, Primary Government		<u>\$ 2,714,683</u>

Notes: (1) These investments are reported as cash and cash equivalents for financial statement reporting purposes.
 (2) Pursuant to the trust agreements, the trustee for the District's Certificates of Participation Series 2006 and 2009 holds all or part of these investments in trust accounts as follows: Florida PRIME \$949,165 and Fund B \$70,706.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy states that the highest priority shall be given to the safety and liquidity of funds. The policy limits the types of authorized investments as a means of managing the exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. 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, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ Credit Risk

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

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

The District’s investments in the certificates of deposit are in a qualified public depository.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 6,847,360	\$ 470,000	\$	\$ 7,317,360
Land Improvements	3,905,807	456,083		4,361,890
Construction in Progress	15,991,110	5,357,142	18,244,566	3,103,686
Total Capital Assets Not Being Depreciated	26,744,277	6,283,225	18,244,566	14,782,936
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	23,252,681	1,153,897		24,406,578
Buildings and Fixed Equipment	318,721,597	19,389,229	403,688	337,707,138
Furniture, Fixtures, and Equipment	16,257,460	1,550,154	1,211,471	16,596,143
Motor Vehicles	3,763,108	68,997	57,948	3,774,157
Audio Visual Materials and Computer Software	5,393,644	514,417	494,061	5,414,000
Total Capital Assets Being Depreciated	367,388,490	22,676,694	2,167,168	387,898,016
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	13,004,341	883,729		13,888,070
Buildings and Fixed Equipment	98,130,259	7,898,287	346,954	105,681,592
Furniture, Fixtures, and Equipment	9,370,204	1,568,494	1,169,294	9,769,404
Motor Vehicles	3,218,975	121,198	13,743	3,326,430
Audio Visual Materials and Computer Software	4,982,397	213,514	463,672	4,732,239
Total Accumulated Depreciation	128,706,176	10,685,222	1,993,663	137,397,735
Total Capital Assets Being Depreciated, Net	238,682,314	11,991,472	173,505	250,500,281
Governmental Activities Capital Assets, Net	\$ 265,426,591	\$ 18,274,697	\$ 18,418,071	\$ 265,283,217

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 317,789
Pupil Transportation Services	20,941
Instructional Media Services	25,047
Instruction and Curriculum Development	20,555
Instructional Staff Training	85,249
Instruction Related Technology	509,501
General Administration	2,001
School Administration	5,940
Fiscal Services	4,342
Food Services	99,158
Central Services	28,095
Pupil Transportation Services	7,825
Operation of Plant	13,132
Maintenance of Plant	2,173,710
Administrative Technology Services	77,324
Community Services	17,533
Unallocated	7,277,080
 Total Depreciation Expense - Governmental Activities	 \$ 10,685,222

D. Florida Retirement System

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

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
DROP - Applicable to Members from All of the Above Classes	0.00	5.44
FRS, 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 for the fiscal year ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$11,750,737, \$5,322,460, and \$5,805,791, respectively, which were equal to the required contributions for each fiscal year.

There were 422 District participants in the Investment Plan during the 2012-13 fiscal year. The District’s required contributions including employee contributions to the Investment Plan totaled \$967,460, which was equal to the contribution for the 2012-13 fiscal year.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, dental, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through Board action. 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 2012-13 fiscal year, 276 retirees received other postemployment benefits. The District provided required contributions of \$814,248 toward the annual OPEB cost, net of retiree contributions totaling \$1,739,049, which represents 2.7 percent of covered payroll.

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Description	Amount
Normal Cost (service cost for one year)	\$ 382,547
Amortization of Unfunded Actuarial Accrued Liability	534,801
Annual Required Contribution	917,348
Interest on Net OPEB Obligation	132,098
Adjustment to Annual Required Contribution	(190,982)
Annual OPEB Cost (Expense)	858,464
Contribution Toward the OPEB Cost	(814,248)
Change in Net OPEB Obligation	44,216
Net OPEB Obligation, Beginning of Year	3,302,457
Net OPEB Obligation, End of Year	\$ 3,346,673

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, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 1,586,004	63.13%	\$3,287,828
2011-12	850,381	98.28%	3,302,457
2012-13	858,464	94.85%	3,346,673

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$9,357,953, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$9,357,953, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$63,749,441, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.68 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.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 July 1, 2011, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2013, and to estimate the District’s 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included an inflation rate of 2.75 percent and an annual healthcare cost trend rate of 7 percent for the 2012-13 fiscal year, reduced periodically thereafter to an ultimate rate of 4.70 percent in the 2089-90 fiscal year. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over a 30 year period.

F. Construction and Other Significant Commitments

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

Project	Contract Amount	Completed to Date	Balance Committed
Chumuckla Elementary - Kitchen/Cafeteria/Music/Art Addition	\$ 2,497,699	\$ 602,073	\$ 1,895,626
Dixon Intermediate - Kitchen Expansion	1,118,470	63,380	1,055,090
Gulf Breeze High - Softball & Baseball Field Houses	1,351,306	251,683	1,099,623
Jay High - Kitchen/Cafeteria/Band/Chorus	3,200,959	336,789	2,864,170
Pace High - Press Box	300,403	151,272	149,131
Rhodes Elementary - Kitchen Expansion/Renovation	823,882	815,250	8,632
Total	\$ 9,292,719	\$ 2,220,447	\$ 7,072,272

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, 2013:

Major Funds				
General	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,118,553	\$ 1,988,769	\$ 5,885,207	\$ 50,000	\$ 9,042,529

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District limits its exposure to these risks through its membership in the Florida School Board Insurance Trust (Trust). The Trust is a self-insurance fund for Florida school boards established under the authority set for in Section 1001.42, Florida Statutes, and was established for the purpose of pooling certain exposures (e.g. property, casualty, and workers’ compensation) of participating districts. If a participating district withdraws or terminates participation in the Trust, and its claims exceed loss fund contributions from premiums paid, the Trust may request additional funds or return the open claims to that district. Through its participation in the Trust, the District has acquired various types of insurance coverage including property, general and automotive liability, workers’ compensation, errors and omissions, employee benefits liability, boiler and machinery, crime, special events, pollution, legal liability, school crisis risk, and cyber liability coverage. Catastrophic student accident, flood and storage tank liability insurance are provided through purchased commercial insurance.

Employee health and hospitalization, dental, and life insurance coverage are provided through purchased commercial insurance.

Prior to July 1, 1997, the District was self-insured for workers’ compensation exposures up to specified limits. At June 30, 2013, a liability in the amount of \$304,887 was recorded to cover future claims payments relating to this former self-insurance program.

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

Fiscal Years	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2011-12	\$ 949,152	\$ (572,708)	\$ (163,275)	\$ 213,169
2012-13	213,169	248,425	(156,707)	304,887

H. Long-Term Liabilities

1. Certificates of Participation

The District entered into financing arrangements with the Santa Rosa School Board Leasing Corporation (Leasing Corporation), pursuant to which the District has authorized several certificates of participation debt issues, characterized as lease-purchase agreements. The following schedule describes the status of these issues at June 30, 2013:

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Series	Original Amount	Principal Paid to Date	Balance
2006-1	\$ 12,370,000	\$ 2,235,000	\$ 10,135,000
2006-2	18,870,000		18,870,000
2009	12,585,000	1,950,000	10,635,000
Total			<u>\$ 39,640,000</u>

As a condition of the financing arrangement, the District has given ground leases on District property to the Leasing Corporation.

The ground lease on the properties associated with the Series 2006 Certificates ends on the earlier of (a) the date on which the 2006 Certificates and any series of certificates refunding the Series 2006 Certificates have been paid in full or provision for their payment has been made, or (b) ten years from the final maturity of the Series 2006 Certificates and any series of certificates refunding the Series 2006 Certificates. It is not expected that the ground lease term with respect to the properties associated with the Series 2006 Certificates will exceed April 13, 2046. The lease payments are payable by the District semiannually, on February 1 and August 1 at interest rates of 4.34 percent for the Series 2006-1 and 4.25 percent to 5.25 percent for the Series 2006-2 Certificates.

The ground lease on the properties associated with the Series 2009 Certificates ends on the earlier of (a) the date on which the Series 2009 Certificates have been paid in full or provision for their payment has been made, or (b) ten years from the final maturity date of the Series 2009 Certificates and any series of certificates refunding the Series 2009 Certificates. The lease payments are payable by the District semiannually, on February 1 and August 1 at interest rates of 4.11 percent for the Series 2009 Certificates.

The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the master lease-purchase agreement provides for several remedies that are available to the Leasing Corporation.

The District properties included in the various ground leases under these arrangements include:

Certificates	Description of Properties
Series 2006	Navarre High School - Gymnasium, Classrooms, and Maintenance Building; Navarre High School - Cafeteria Expansion, Field House, and North Wing Addition; Thomas L. Sims Middle School - Classroom Spaces and Accoutrements; Bennett C. Russell Elementary School; Woodlawn Beach Middle School - Classroom Additions.
Series 2009	Jay High School - Improvements and Central High School - Improvements.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 3,649,242	\$ 1,795,000	\$ 1,854,242
2015	3,642,303	1,865,000	1,777,303
2016	3,647,357	1,950,000	1,697,357
2017	3,649,583	2,035,000	1,614,583
2018	3,636,534	2,110,000	1,526,534
2019-2023	18,148,976	11,945,000	6,203,976
2024-2028	14,617,414	11,245,000	3,372,414
2029-2031	<u>7,409,787</u>	<u>6,695,000</u>	<u>714,787</u>
 Total Minimum Lease Payments	 58,401,196	 39,640,000	 18,761,196
 Plus: Unamortized Premium	 <u>686,749</u>	 <u>686,749</u>	 <u></u>
 Total Certificates of Participation	 <u>\$ 59,087,945</u>	 <u>\$ 40,326,749</u>	 <u>\$ 18,761,196</u>

2. Bonds Payable

Bonds payable at June 30, 2013, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2004A	\$ 150,000	4.00 - 4.625	2024
Series 2005A	1,810,000	5.0	2025
Series 2005B, Refunding	545,000	5.0	2018
Series 2006A	230,000	4.0 - 4.625	2026
Series 2009A, Refunding	275,000	4.0 - 5.0	2019
Series 2010A	1,010,000	3.50 - 5.0	2030
Series 2011A, Refunding	435,000	3.0 - 5.0	2023
District Revenue Bonds:			
Racetrack, Series 1996	<u>700,000</u>	5.8	2016
 Bonds Payable	 5,155,000		
 Plus: Unamortized Premium	 <u>129,288</u>		
 Total Bonds Payable	 <u>\$ 5,284,288</u>		

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

➤ State School Bonds

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

➤ District Revenue Bonds

These bonds are authorized by Chapter 73-616, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Santa Rosa County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of \$784,100 of pari-mutuel tax revenues in connection with the District Revenue Bonds of 1996, described above. During the 2012-13 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$195,450 (88 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on August 1, 2016. Assuming no growth rate in the collection of pari-mutuel funds, 100 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 844,258	\$ 635,000	\$ 209,258
2015	797,707	620,000	177,707
2016	806,898	660,000	146,898
2017	794,085	680,000	114,085
2018	370,297	290,000	80,297
2019-2023	1,081,844	825,000	256,844
2024-2028	649,012	550,000	99,012
2029-2030	206,800	195,000	11,800
Total State School Bonds	5,550,901	4,455,000	1,095,901
District Revenue Bonds:			
2014	195,960	160,000	35,960
2015	196,390	170,000	26,390
2016	196,240	180,000	16,240
2017	195,510	190,000	5,510
Total District Revenue Bonds	784,100	700,000	84,100
Total	\$ 6,335,001	\$ 5,155,000	\$ 1,180,001

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	\$ 41,360,000	\$	\$ 1,720,000	\$ 39,640,000	\$ 1,795,000
Unamortized Premium on Certificates	736,113		49,364	686,749	49,365
Total Certificates of Participation Payable	42,096,113		1,769,364	40,326,749	1,844,365
Bonds Payable	5,915,000		760,000	5,155,000	795,000
Unamortized Premium on Bonds	136,008		6,720	129,288	13,009
Total Bonds Payable	6,051,008		766,720	5,284,288	808,009
Compensated Absences Payable	18,904,308	6,430,698	6,617,544	18,717,462	5,503,511
Other Postemployment Benefits Payable	3,302,457	858,464	814,248	3,346,673	
Total Governmental Activities	\$ 70,353,886	\$ 7,289,162	\$ 9,967,876	\$ 67,675,172	\$ 8,155,885

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

I. Fund Balance Reporting

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

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

J. Revenues And Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District’s State revenue sources for the 2012-13 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 77,612,089
Categorical Education Program - Class Size Reduction	26,342,734
Workforce Development Program	1,529,437
School Recognition	1,422,252
Motor Vehicle License Tax (Capital Outlay and Debt Service)	946,651
Voluntary Prekindergarten Program	269,766
Racing Commission Funds (Debt Service)	223,250
Food Service Supplement	114,951
Charter School Capital Outlay	48,507
Mobile Home License Tax	31,167
Miscellaneous	169,293
	<hr/>
Total	<u>\$ 108,710,097</u>

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

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

2. Property Taxes

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.520	\$ 44,960,968
Basic Discretionary Local Effort	0.748	6,092,537
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.400	11,403,144
 Total	 <u>7.668</u>	 <u>\$ 62,456,649</u>

K. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 4,428,237	\$ 311,858
Capital Projects:		
Local Capital Improvement		7,114,969
Other	5,640	873,143
Nonmajor Governmental	<u>3,866,093</u>	
 Total	 <u>\$ 8,299,970</u>	 <u>\$ 8,299,970</u>

The District made transfers to the General Fund to cover payments on the District’s student transportation contract, to pay for certain property and casualty insurance premiums, to cover payments for software renewals, to facilitate the transfer of State funds to its charter schools, to pay for network infrastructure, and to pay contractual payments for tennis courts usage. The District made transfers to the nonmajor governmental funds to facilitate debt service payments on certificates of participation, payments of school recognition bonuses to food service personnel, and to cover the District’s portion of Reserve Officer Training Corps.

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2013**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 780,000	\$ 871,436	\$ 871,442	\$ 6
Federal Through State and Local	450,000	452,855	484,660	31,805
State	108,858,024	107,363,759	107,304,144	(59,615)
Local:				
Property Taxes	49,089,056	49,626,609	49,682,104	55,495
Miscellaneous	3,576,420	4,013,238	4,172,517	159,279
Total Local Revenues	<u>52,665,476</u>	<u>53,639,847</u>	<u>53,854,621</u>	<u>214,774</u>
Total Revenues	<u>162,753,500</u>	<u>162,327,897</u>	<u>162,514,867</u>	<u>186,970</u>
Expenditures				
Current - Education:				
Instruction	105,963,379	107,143,966	103,581,294	3,562,672
Pupil Personnel Services	6,819,924	7,381,581	7,075,288	306,293
Instructional Media Services	2,482,390	2,541,883	2,366,748	175,135
Instruction and Curriculum Development Services	2,932,252	2,985,321	2,785,951	199,370
Instructional Staff Training Services	906,875	947,559	815,763	131,796
Instruction Related Technology	4,534,910	3,611,181	3,580,172	31,009
School Board	419,642	534,634	489,185	45,449
General Administration	656,580	625,794	623,428	2,366
School Administration	11,943,300	12,351,500	12,167,705	183,795
Facilities Acquisition and Construction	96,659	61,159	34,097	27,062
Fiscal Services	1,221,385	1,181,768	1,112,902	68,866
Central Services	2,520,899	2,866,984	2,461,260	405,724
Pupil Transportation Services	12,799,295	12,859,796	12,530,891	328,905
Operation of Plant	14,500,642	13,170,282	12,561,224	609,058
Maintenance of Plant	4,742,810	4,446,379	4,099,350	347,029
Administrative Technology Services	1,869,447	1,680,952	1,587,209	93,743
Community Services	1,736,440	1,758,426	1,670,975	87,451
Fixed Capital Outlay:				
Facilities Acquisition and Construction		107,768	107,768	
Other Capital Outlay	3,549	1,289,106	1,289,106	
Total Expenditures	<u>176,150,378</u>	<u>177,546,039</u>	<u>170,940,316</u>	<u>6,605,723</u>
Deficiency of Revenues Over Expenditures	<u>(13,396,878)</u>	<u>(15,218,142)</u>	<u>(8,425,449)</u>	<u>6,792,693</u>
Other Financing Sources (Uses)				
Transfers In	4,502,375	4,433,878	4,428,237	(5,641)
Insurance Loss Recoveries		83,647	83,647	
Transfers Out	(310,773)	(311,858)	(311,858)	
Total Other Financing Sources	<u>4,191,602</u>	<u>4,205,667</u>	<u>4,200,026</u>	<u>(5,641)</u>
Net Change in Fund Balances	<u>(9,205,276)</u>	<u>(11,012,475)</u>	<u>(4,225,423)</u>	<u>6,787,052</u>
Fund Balances, Beginning	19,343,601	19,343,601	19,343,601	
Fund Balances, Ending	<u>\$ 10,138,325</u>	<u>\$ 8,331,126</u>	<u>\$ 15,118,178</u>	<u>\$ 6,787,052</u>

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 327,785	\$ 548,488	\$ 511,242	\$ (37,246)
<u>327,785</u>	<u>548,488</u>	<u>511,242</u>	<u>(37,246)</u>
49,067	49,067	49,067	
265,720	478,664	447,206	31,458
12,998	17,835	14,969	2,866
	2,922		2,922
<u>327,785</u>	<u>548,488</u>	<u>511,242</u>	<u>37,246</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2009	\$ 0	\$ 14,903,748	\$ 14,903,748	0.0%	\$ 70,187,989	21.23%
July 1, 2010	0	15,377,798	15,377,798	0.0%	65,536,617	23.46%
July 1, 2011	0	9,357,953	9,357,953	0.0%	63,749,441	14.68%

Note (1): The District's actuarial valuation used the projected unit credit cost method to estimate the actuarial accrued liability.

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

I. BUDGETARY BASIS OF ACCOUNTING

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

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2012, unfunded actuarial liability of \$9,357,953 was significantly lower than the January 1, 2010, liability of \$15,377,798 as a result of benefit changes in liabilities and costs as discussed below:

- Expected annual claims have been updated to reflect the most recent claims experience and plan features.
- Expected medical inflation has been updated to reflect the current economic environment.
- The mortality assumption has been updated to comply with current actuarial standards of practice.
- The retirement decrement has been updated to match updates in the assumptions used in the Florida Retirement System (FRS) valuation.
- The withdrawal decrement has been updated to match updates in the assumptions used in the FRS valuation.
- The disability decrement has been updated to match updates to the assumptions used in the FRS valuation.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	\$ 1,239,189
National School Lunch Program	10.555 (2)(A)	300	4,968,078
Summer Food Service Program for Children	10.559	323	<u>151,204</u>
Total Child Nutrition Cluster			6,358,471
Florida Department of Education:			
Team Nutrition Grants	10.574	301	12,374
Fresh Fruit and Vegetable Program	10.582	330, 331	46,050
Florida Department of Financial Services:			
Schools and Roads - Grants to States	10.665	None	<u>733</u>
Total United States Department of Agriculture			6,417,628
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	52,014
Navy Junior Reserve Officers Training Corps	None	N/A	<u>222,566</u>
Total United States Department of Defense			274,580
United States Department of Labor:			
Indirect:			
Workforce Escarosa, Inc.:			
WIA Youth Activities	17.259	None	<u>471,894</u>
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041 (2) (B)	None	<u>50,532</u>
United States Department of Education:			
Direct:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	5,703
Federal Work-Study Program	84.033	N/A	5,611
Federal Pell Grant Program	84.063	N/A	<u>433,508</u>
Total Student Financial Assistance Cluster			444,822
Impact Aid	84.041	N/A	<u>871,442</u>
Total Direct			1,316,264
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (5)	262, 263	6,611,363
Special Education - Preschool Grants	84.173	267	116,855
Washington County District School Board:			
Special Education - Grants to States	84.027 (5)	None	10,333
University of South Florida:			
Special Education - Grants to States	84.027 (5)	None	<u>12,133</u>
Total Special Education Cluster			6,750,684
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	229,428
Title I Grants to Local Educational Agencies	84.010	212, 223, 226, 228	4,040,198
Career and Technical Education - Basic Grants to States	84.048	161	186,489
Education for Homeless Children and Youth	84.196	127	87,258
Even Start - State Educational Agencies	84.213	219	11,574
English Language Acquisition Grants	84.365	102	16,370
Improving Teacher Quality State Grants	84.367	224	801,294
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211, RG311	<u>511,242</u>
Total Indirect			12,634,537
Total United States Department of Education			13,950,801

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	\$ 2,265,825
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 (4)	None	1,042
Total Expenditures of Federal Awards			\$ 23,432,302

- 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 \$573,366 of donated food received during the fiscal year. Donated food is valued at fair value as determined at the time of donation.
 - (B) State Energy Program - Represents the Federally-paid portion of solar panels and related site preparation and installation costs.
- (3) Head Start. Expenditures include \$1,262,285 for grant number 04CH0384/22 and \$1,003,540 for grant number 04CH0384/23.
- (4) Disaster Grants - Public Assistance (Presidentially Declared Disasters). The amount disclosed as expenditures represents hurricane loss recoveries for the 2012-13 fiscal year as follows: \$1,042 for small projects.
- (5) Special Education. Expenditures total \$6,633,829 for CFDA No. 84.027.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Santa Rosa County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated February 24, 2014, included under the heading **INDEPENDENT AUDITOR’S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Santa Rosa County District School Board’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 24, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Report on Compliance for Each Major Federal Program

We have audited the Santa Rosa 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, 2013. The District’s major Federal programs are identified in the **SUMMARY OF AUDITOR’S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 24, 2014

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.395	ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
93.600	Head Start
Dollar threshold used to distinguish between Type A and Type B programs:	\$702,969
Auditee qualified as low-risk auditee?	Yes

**SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ADDITIONAL MATTERS

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which requires the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs), provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2012-13 fiscal year, the District regularly used EFTs for retirement benefits, Federal withholding taxes, direct deposits of employee pay, and transactions between District bank accounts. According to District records, cash and cash equivalents and investments totaling \$41 million were available for electronic transfer at June 30, 2013. The District established an investment agreement with the State Board of Administration (SBA) and a bank agreement to provide various services, such as EFTs; however, we noted certain deficiencies related to the EFT process as follows:

- While the District used informal processes, such as oral instructions and reviews of documentation supporting transfers to monitor and control EFTs, the Board had not adopted written policies prescribing the accounting and control procedures for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes.
- The SBA investment agreement presented for audit contained outdated information as it authorized a former employee, who terminated employment in July 2011, to view account activities and make changes to the SBA account, including who could make EFTs. Subsequent to our inquiry on July 11, 2013, the District removed the former employee's authorization from the agreement.
- The District's bank and investment agreements identified the employees authorized to initiate and authorize EFTs; however, the agreements lacked the required manual signatures of those employees authorized to initiate EFTs, contrary to SBE Rule 6A-1.0012, FAC.
- The system administrator is responsible for authorizing those who initiate and authorize EFTs and setting transfer limits for those individuals. Also, the accounting analyst was responsible for receiving confirmation of EFTs and approving accounting entries for EFTs. However, the banking agreement did not provide for an appropriate separation of duties as it allowed the system administrator and the accounting analyst, without secondary approval, to initiate and authorize EFTs.
- The bank provides an online six-month record of EFT transactions authorized by electronic signatures, and the District may download these transaction records for record retention purposes. However, the District did

not download these records or maintain other records to identify the individuals who initiated and approved EFTs during the fiscal year, contrary to SBE Rule 6A-1.0012, FAC.

The District had established controls over EFTs, such as independent bank reconciliations and restricting the locations to which transfers may be made, and our tests did not disclose any EFTs for unauthorized purposes. However, the lack of specific guidance in the form of Board-approved written policies and procedures, EFT agreements containing outdated information or excluding required information, inappropriate separation of duties, and insufficient records to identify who initiated and authorized EFTs increases the risk of misappropriation of funds without timely detection.

Recommendation: The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. Such policies and procedures should ensure that EFT agreements are timely updated for changes in personnel, appropriately separate the duties of initiating and authorizing EFTs, and contain required signatures. Also, District records should be maintained to evidence the individuals who initiated and approved EFTs.

Finding No. 2: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

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

For the 2012-13 fiscal year, the District reported to the FDOE 86,320 instructional contact hours for 786 students enrolled in 1,770 adult general education classes. Our initial review of 1,661 hours reported for 19 students enrolled in 51 adult general education classes disclosed contact hours were over-reported by 432 hours for 7 students in 11 classes and under-reported by 85 hours for 5 students in 6 classes. These misreported hours occurred primarily because District personnel recorded incorrect course information in the course master schedule used to calculate contact hours, used incorrect withdrawal dates, and did not have procedures in place to ensure that hours for dropped courses were properly reported. District personnel had no explanation for 157 of the 432 over-reported hours.

We expanded our procedures and determined that the District over-reported an additional 25,180 hours for 95 students in 24 classes because of incorrect course information entered into the course master schedule, and under-reported an additional 5,280 hours for 43 students in 99 classes for students who initially stopped class attendance but re-enrolled during the same semester. District personnel confirmed that these are the total hours misreported for the 2012-13 fiscal year.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly.

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

Finding No. 3: Bus Drivers

SBE Rule 6A-3.0141(6), FAC, requires the District to review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to initial employment and the first day of the fall semester, and thereafter using automated weekly updates.

For the 2012-13 fiscal year, the District contracted with a company to provide student transportation services, and the company hired staff to operate a safety program, which included performing a review of bus driver history records and ensuring that bus drivers are properly licensed. However, District records did not evidence monitoring procedures to ensure that the contractor performed history reviews and verified bus driver licenses. While we extended our procedures to confirm that the company performed the bus driver history reviews and ensured bus drivers were properly licensed, our procedures do not substitute for the District's responsibility to implement adequate monitoring controls over bus drivers.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel appropriately monitor the contractor's review of bus driver history records to ensure the drivers meet the requirements to operate school buses.

Recommendation: The District should enhance its monitoring procedures to ensure that bus driver history records are properly reviewed and that bus drivers transporting students are properly licensed.

Finding No. 4: Conflicts of Interest

Pursuant to Section 112.313(3), Florida Statutes, no District employee acting in his or her official capacity as a purchasing agent, or public officer acting in his or her official capacity, may either directly or indirectly purchase, rent, or lease any realty, goods, or services for the District from any business entity in which the officer or employee or the officer's or employee's spouse or child is an officer, partner, director, or proprietor, or in which such officer or employee or the officer's or employee's spouse or child, or any combination of them, has a material interest. Pursuant to Section 112.313(7)(a), Florida Statutes, no District employee may have or hold any employment or contractual relationship with any business entity or agency that is subject to the regulation of, or is doing business, with the District. This section further prohibits a District employee from having or holding any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her public duties, or that would impede the full and faithful discharge of his or her duties.

Board Policy No. 6.301 prohibits an employee acting on behalf of the District from either directly or indirectly purchasing services from any business entity of which the employee has a material interest; however, the District did not have policies or procedures to detect or deter conflicts of interest. For example, such policies and procedures could prohibit employees from having outside employment with a vendor doing business with the District or require employees to disclose all potential conflicts of interest. During the 2012-13 fiscal year, the District paid \$415,843 to a vendor, a District employee was employed as a consultant with the vendor, and the District employee's relationship with the vendor may have been contrary to Section 112.313, Florida Statutes. Subsequent to our inquiry, District personnel indicated that the employee voluntarily ended the relationship with the vendor.

To ensure public confidence over procurement practices, it is essential that any and all appearances of a conflict of interest be avoided to retain the public's trust and ensure compliance with Section 112.313, Florida Statutes.

Recommendation: The District should enhance its policies and procedures to ensure compliance with Section 112.313, Florida Statutes.

Finding No. 5: Contractual Services

Pursuant to SBE Rule 6A-1.012, FAC, the District is required to request bids from three or more sources for purchases exceeding \$50,000, or in lieu of requesting three bids, it may make purchases at the unit prices in contracts awarded by another school board when the bidder awarded the contract will permit purchases by the school board at the same terms, conditions, and unit prices awarded in such contract, and such purchases are to the economic advantage of the school board. The District occasionally issues blanket purchase orders for routine purchases of goods and services over a predetermined time period up to specified total amounts. If purchases and related expenditures exceed the amounts specified in the blanket purchase orders, District procedures require that new blanket purchase orders be issued, and the District uses the initial amount of the blanket purchase order to assess whether to competitively bid the purchase in accordance with SBE Rule 6A-1.012, FAC. In addition, Section 1001.41(4), Florida Statutes, provides that the Board is the contracting agent for the District, and Section 1013.15(1), Florida Statutes, requires that the Board consider approval of lease agreements at public meetings, and make lease agreements available for inspection and review by the public, after due notice as required by law.

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are consistent with contract terms and conditions. During the 2012-13 fiscal year, the Board entered into agreements for contractual services with 260 vendors and made payments on those contracts totaling \$32 million. To determine the propriety of payments for contractual services, we tested payments totaling \$5 million for 14 contracts and noted controls over contractual services could be enhanced, as follows:

- Pursuant to Section 1006.12, Florida Statutes, and Board-approved contracts, the Santa Rosa Sheriff's Office and the City of Gulf Breeze provided school resource officers at seven schools and a K-9 unit at a school of the District's choice. For the 2012-13 fiscal year, the District paid the Sheriff's Office and the City of Gulf Breeze a total of \$334,240. Our review of payments for school resource officer (SRO) services disclosed the following:
 - The contracts provided that 40 hours would be the maximum number of hours in a workweek for each SRO and that the SROs would be on duty at their respective schools from 30 minutes before the beginning of the students' school day until 30 minutes after the end of the students' school day. The contracts also provided for SRO compensatory time for additional assignments as needed for extracurricular events. However, District personnel with direct knowledge of the SRO services did not maintain SRO sign-in, sign-out sheets or other records to evidence satisfactory receipt of the services but instead relied on the Sheriff's Department and City of Gulf Breeze to make adjustments to the amounts billed to the District if SROs did not work the contracted hours.
 - On April 19, 2013, the District paid the City of Gulf Breeze \$59,866 for SRO services for the 2012-13 fiscal year, including \$11,308 paid in advance before services were performed.

Without evidence that services are satisfactorily received before payments are made, there is an increased risk of overpayment, and the District's recourse may be limited should disagreements arise between the District and the service provider.

- On June 14, 2012, the District issued an \$8,040 blanket purchase order to a vendor for fire sprinkler system inspection and repair services. Due to additional payments to the vendor for safety repairs, the District

ultimately paid \$60,242 to the vendor. Although the cost of these services exceeded the \$50,000 bid threshold, the District did not procure these services pursuant to competitive bids, contrary to SBE Rule 6A-1.012, FAC. Without competitively bidding services as required, there is an increased risk of obtaining services that may not be at the lowest price consistent with desired quality.

- The District issued a purchase order to a company for health screening services based on established rates, and paid \$18,348 to the company for such services for the 2012-13 fiscal year. However, District personnel did not confirm these service rates prior to payment and the District made certain overpayments. For example, one payment in August 2012 totaling \$7,336.50 included excess charges totaling \$655.50 for 82 screening services. In October 2012, the District began reconciling company billings to established rates; however, the District did not ensure appropriate credits were received for the excess charges until subsequent to our inquiry in August 2013. Without appropriate procedures to confirm established rates prior to payment, there is an increased risk of overpayment.
- The former Santa Rosa Community School (SRCS) director entered into an agreement with a non-profit organization for lease of space within the SRCS building for \$800 per month, beginning January 1, 2012, without Board approval and without making the agreement available for inspection and review by the public, contrary to Sections 1001.41(4) and 1013.15(1), Florida Statutes. Absent Board approval and public inspection and review of lease agreements, there is an increased risk of obtaining services that are inconsistent with Board intentions.

Recommendation: The District should enhance its procedures to ensure that services are satisfactorily received and consistent with contract terms before payments are made; services are obtained pursuant to a competitive selection process, as required; and services are paid for at agreed upon prices. Also, the District should enhance its procedures to ensure Board approval of lease agreements as required.

Finding No. 6: Purchasing Card Rebates

The District maintains a purchasing card (P-card) program, provided through a financial institution, as an available procurement option for its purchasing process. As an incentive, the District receives annual rebates from the financial institution for the program, with the amounts determined based on the dollar amount of P-card purchases during annual periods. During the 2012 calendar year, the District had P-card purchases totaling \$5,974,940, resulting in receipt as of March 7, 2013, of a \$72,440 rebate.

The \$72,440 rebate received by the District included \$31,514 and \$7,429 that were generated by purchases using restricted District moneys in the capital projects and special revenue funds, respectively. However, the rebates were not allocated to the funds from which the P-card purchases were made. Instead, the rebates were recognized as revenue and applied to the General Fund, which is used for general operating purposes.

District personnel indicated they were unaware that the rebates should be accounted for in the specific fund type that generated the rebate. As certain Federal and State resources are typically restricted by Federal or State law, rebates generated by expenditures of those funds may be subject to the same restrictions. Without procedures to allocate rebates to the appropriate funding source, there is an increased risk that rebates generated by restricted sources may be used for purposes inconsistent with the restrictions on these resources.

Recommendation: The District should consult with the appropriate Federal cognizant agency and the Florida Department of Education for resolution on the use and allocation of rebates received on P-card purchases.

Finding No. 7: Facilities Management

The facilities planning department is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. During the 2012-13 fiscal year, the department employed four full-time employees and the department's operating cost was \$0.8 million. Also, during this fiscal year, the District had expenditures totaling \$9 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 26, 2013, the District planned to spend \$41.1 million on construction and remodeling projects and \$15.7 million on maintenance and renovation over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$377 million and, as shown on the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 31 years.

The maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The facilities maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, this department employed 42 full-time employees, including grounds and maintenance personnel, and the department's operating cost was \$5.3 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities department employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods and Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the traditional design-bid-build methods. In addition, renovation, remodeling, and maintenance-related jobs, such as painting, plumbing, electrical, and heating, ventilation, and air-conditioning repairs, are routinely performed by facilities and maintenance department personnel based on safety and suitability priorities, although some jobs are outsourced to vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not consistently documented evaluations of the various approaches to determine, for each major construction project or significant maintenance-related job, which would be most cost-effective and beneficial. Board approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The District's facilities planning department had not established short-term or long-term goals for its construction program. The maintenance department had established short-term and long-term goals; however, the maintenance department goals did not sufficiently address accountability for the department. Examples of maintenance department goals included assuring a safe and sanitary environment and providing protection of facilities and equipment for maximum economic utilization. However, the goals did not sufficiently identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the departments could set goals such as completing construction projects or maintenance-related jobs that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because an aspect of a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goals could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities planning and maintenance departments are operating as cost-effectively and as efficiently as possible.

Recommendation: The District should consider developing written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related jobs, and document these evaluations. In addition, the District should consider developing goals and objectives for the facilities planning and maintenance departments to identify cost-effectiveness or efficiency outcomes for department personnel.

Finding No. 8: Fund Balance Reporting

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. On the District's 2012-13 fiscal year annual financial report submitted to the FDOE and presented for audit, certain unrestricted resources totaling \$702,329 were reported as restricted fund balance in a capital projects fund. District records disclosed that these resources consisted of oil and gas severance taxes and royalties recorded in the capital projects fund in the current and previous fiscal years, and District personnel indicated that the District has historically used these resources for capital outlay purposes such as computer equipment, software renewals, payments on leases, and costs related to the educational plant survey. However, neither the District's five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which these resources were restricted. As such, District records did not evidence the externally imposed constraints that require use of these resources for specific purposes.

We extended our audit procedures to determine the adjustments necessary to properly report these resources as assigned fund balance for the capital projects funds on the District's financial statements, and District personnel accepted these adjustments. Without properly classified fund balances, financial statement users may not be able to properly assess the District's financial position.

Recommendation: The District should enhance its financial reporting procedures to ensure that fund balances are appropriately classified, and disclose in its records the intended uses of the unrestricted resources of \$703,329 in the capital projects funds.

Finding No. 9: Virtual Instruction Program Policies and Procedures

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

District records (e.g., pupil progression plans and code of student code conduct) identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment and withdrawal information; however, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

District personnel indicated that they believed the policies and procedures in the District's records noted above were sufficient. However, to promote compliance with the VIP statutory requirements, documented policies and procedures could evidence management's expectations of key personnel and communicate management's commitment to, and support of, effective controls. For example, policies and procedures could require school district personnel to confirm the Florida teaching certificates with the FDOE and to survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of the District's noncompliance and control deficiencies identified in Findings Nos. 10 through 14.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

Finding No. 10: Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. For example, contracts must require that approved providers be responsible for all debts of the VIP if the contract is not renewed or is terminated, specify the authorized reasons for contract termination, specify a method for resolving conflicts among the parties, and require the approved provider to comply with all requirements of Section 1002.45, Florida Statutes.

Our review of the contract with one of the District's VIP providers disclosed the following:

- The contract did not require the provider to comply with all requirements of Section 1002.45, Florida Statutes. As this law contains specific program requirements, such as student eligibility and compulsory attendance requirements, excluding such requirements from the contracts may limit the Districts' ability to ensure compliance with these requirements in the event of a dispute.
- The contract did not include agreed-upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)7.¹, Florida Statutes (2012), which requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes. Further, the District did not establish student-teacher ratio thresholds for contracted VIP classes to allow for evaluations of the reasonableness of such ratios. Without establishing such ratios or ratio thresholds in the contracts or documenting evaluations of the reasonableness of the ratios, the number of students in VIP classes may exceed District expectations and the District's ability to monitor the quality of the providers' virtual instruction may be limited.
- The contract lacked a provision requiring the provider to be responsible for all debts of the VIP if the contract was not renewed or was terminated, contrary to Section 1002.45(4)(e), Florida Statutes. The inclusion of such a provision would strengthen the Districts' position in the event of a challenge by a provider.

¹ Renumbered as Section 1002.45(2)(a)8., Florida Statutes.

- The contract did not provide for the District to monitor the provider's compliance with contract terms. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.
- The contract included no provisions for data quality requirements. The provider maintains significant amounts of education data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly, it is essential that accurate and complete data maintained by the VIP provider on behalf of Districts be available in a timely manner. The inclusion of data quality requirements in contracts would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.
- The contract contained requirements for the provider to implement, maintain, and use appropriate, administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Rights and Privacy Act (FERPA), to maintain the confidentiality of education records. However, the contract did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive education data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other IT controls may occur.

Recommendation: The District should establish or enhance procedures to ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP providers.

Finding No. 11: Virtual Instruction Options

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

The District provided students the opportunity to participate in virtual instruction. However, the District did not provide students in grades K-5, except for accelerated students in grades 4 and 5, with at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and thus limited student access to different types of virtual instruction. We also noted that, although the District contracted with providers to deliver the required number of virtual instruction options in grades 6-12, the District did not notify parents or students that certain options were available, including:

- In its provider contract, the District selected a particular curriculum method as one of the programs to be made available to students. However, the District did not include this curriculum method as a separate option in any of the VIP information provided to parents or students. As a result, no students elected to participate in this curriculum method.
- The District added part-time instruction for grades K-8 to its contract with a VIP provider in November 2012. However, the District did not notify parents or students that this option was available. As a result, no students in grades K-8 enrolled in part-time instruction through the VIP provider.

In addition, while the District offered part-time instruction to students in grades 4-12 as an available option, the District placed certain restrictions on enrollment, which may have limited the number of students who could elect this

option. Students in grades 4 and 5 had to achieve a certain FCAT score and, for grades 6-12, students had to take the course during the school day or the course could not be offered at the school; and the school had to have student stations available.

District personnel indicated that they misunderstood the requirements of the statute and thought they were offering the required number of options. Without effectively communicating and offering required types of VIP instruction, there is an increased risk that the District may limit student access to different types of VIP instruction, contrary to Section 1002.45, Florida Statutes.

Recommendation: The District should ensure that the minimum number of VIP options is offered as required by law.

Finding No. 12: Provider Background Screenings

Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State. The District's providers indicated in their assurances to the FDOE during the approval process that lists of provider employees or contracted personnel subjected to the required screening would be provided to each applicable school district; however, the District did not initially obtain such a list from its VIP providers. Although the VIP providers provided the District with evidence that background screenings were performed for instructional personnel, the District did not receive similar evidence of background screenings for all the provider's employees and contracted personnel that may have contact with students or handle sensitive data, such as help-desk personnel or software technicians.

Absent effective controls to ensure that background screenings of VIP provider employees and contracted personnel are performed, there is an increased risk that these employees and contracted personnel may have backgrounds that are inappropriate for communicating with students and accessing confidential or sensitive District data and IT resources.

Recommendation: The District should enhance its procedures to ensure that the required background screenings are performed for all VIP provider employees and contracted personnel.

Finding No. 13: Computing Resources

Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in his or her home.

The District provided computing resources to only three students for the 2012-13 fiscal year. Our review of District procedures for communicating the availability of, and providing, computer resources to VIP students disclosed that such procedures could be enhanced. Specifically, we noted the following:

- Applications for participation in the VIP excluded questions regarding household income and ownership of computers, the responses to which could be useful in determining whether applicants might qualify for VIP computing resources.
- District personnel indicated that the District informed high school students through its Web site that each student was responsible for providing the required computer resources for the VIP and, for students who

asked for the resources and were qualified, the District offered the resources. If a family initiated a request for computing resources, District personnel indicated that they asked if the family had available computing resources, but did not retain evidence of these discussions. Without direct communication of the availability of computing resources to those eligible, and documented determinations of whether families had computing resources, students may not be provided the necessary resources to participate in the VIP.

- District personnel indicated that VIP students generally did not receive meals at the schools and, as such, families of the students did not complete free and reduced price meal applications. Appropriate identification of students eligible for VIP computing resources, and communication of this eligibility to families, may encourage families to allow their children to participate in the VIP.

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

Finding No. 14: Residual Funds

Pursuant to Section 1002.45(1)(e)2., Florida Statutes, after deducting District VIP-contracted service expenditures from Florida Education Finance Program (FEFP) VIP funding, the District is required to spend these residual funds on the District's local instructional improvement system (LIIS) or other technological tools required to access electronic and digital instructional materials. Section 1006.281, Florida Statutes, defines the LIIS as a system that uses electronic and digital tools that provide teachers, administrators, students, and parents with data and resources to systematically manage continuous instructional improvement.

For the 2012-13 fiscal year, the District generated \$278,258 of FEFP VIP funding, and expended \$215,691 on contracted services, technological tools, and the local instructional improvement system. However, the District did not properly determine and separately account for expenditures of the FEFP VIP funds, and did not identify the amount of residual FEFP VIP funds or the purpose for which these residual funds were to be expended. Without separate accountability of residual FEFP VIP funds, there is an increased risk that the funds may be used for purposes inconsistent with the restrictions on these resources.

Recommendation: The District should enhance procedures to ensure that residual VIP funds are properly calculated, separately accounted for, and used for the purposes specified in Section 1002.45(1)(e)2., Florida Statutes.

Finding No. 15: Information Technology – Disaster Recovery Plan

Disaster recovery planning is an element of information technology (IT) controls established to manage the availability of critical data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide a plan for continuing critical operations in the event of a major hardware or software failure. The success and effectiveness of a disaster recovery plan requires elements such as provisions for secured off-site storage of critical backups and alternate site processing arrangements.

Although the Board-approved disaster recovery plan included key elements such as prioritizing the resumption of mission critical systems, utilities, communications, and payroll, the plan did not identify key recovery personnel and their responsibilities along with backup personnel in case the primary key recovery personnel were unable to perform their assigned responsibilities during a disaster. The absence of this information in the District disaster recovery plan

may hinder the District’s effort to minimize the impact of, and timely recover from, a disaster or a disruption of operations. Similar findings were noted in our report Nos. 2010-28 and 2011-133.

Recommendation: The District should revise its IT disaster recovery plan to identify key recovery personnel and their responsibilities along with personnel having backup responsibilities in the event of a disaster.

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

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

Without adequate security controls related to user authentication, data loss prevention, and logging and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings related to user authentication were communicated to District management in connection with our report Nos. 2010-128 and 2011-133.

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports.

Current Fiscal Year Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2008-09 Fiscal Year Audit Report and Finding Numbers
15	Audit Report No. 2011-133, Finding No. 10	Audit Report No. 2010-128, Finding No. 4
16	Audit Report No. 2011-133, Finding No. 11	Audit Report No. 2010-128, Finding No. 5

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

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*SANTA ROSA COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013*

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
Carr, Riggs, & Ingram, L.L.C.		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Timothy S. Wyrosdick
Superintendent of Schools

5086 Canal Street Milton, Florida 32570-6706

Phone: 850/983-5012

Suncom: 689-5012

Cellular: 850/777-7762

Facsimile: 850/983-5013

E-mail: WyrosdickT@mail.santarosa.k12.fl.us

February 24, 2014

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

Dear Mr. Martin:

Pursuant to the provisions of Section 11.12(4)(d), Florida Statutes, I am submitting to you, in writing, statements of explanation (compiled from the responses as received from those in positions of responsibility of a given area) concerning the items presented in the preliminary and tentative audit findings for the fiscal year ended June 30, 2013. As a matter of organization and clarification, the responses can be referenced using the headings as submitted from your office.

Finding No. 1: Electronic Funds Transfers

Response: Written policies and procedures to address accounting and control procedures for EFTs and use of electronic signatures are being developed and will be taken to the Board for approval.

Finding No. 2: Adult General Education Classes

Response: The District will ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. After working with the administration at Santa Rosa Adult School, we will contact the FDOE to reconcile the misreported hours.

Finding No. 3: Bus Drivers

Response: The District has enhanced its monitoring procedures to ensure that bus driver history records are properly reviewed by district supervisory personnel and that bus drivers transporting students are properly licensed.

Finding No. 4: Conflicts of Interest

Response: The District has revised its conflict of interest policy in response to the recent audit findings. Our intent is to have the board attorney review it in March 2014 and then seek School Board approval in April. This document will then be included in our beginning of the year forms we send to all employees starting August 2014.

DISTRICT 1
Diane Scott

DISTRICT 2
E. Hugh Winkles

DISTRICT 3
Diane Coleman

DISTRICT 4
Jennifer Granse

DISTRICT 5
Scott Peden

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 5: Contractual Services

Response: Currently the District has policies and procedures in place to ensure compliance with SBE Rule 6A-1.012, FAC. The district will review those policies and procedures to ensure that services are satisfactorily received and consistent with the contract terms before payments are made. In addition, the district has enhanced its procedures to ensure Board approval has been obtained for all lease agreements as required.

Finding No. 6: Purchasing Card Rebates

Response: The District will consult with the appropriate Federal cognizant agency and the Florida Department of Education for resolution concerning allocation of rebates received on P-card purchases. Based on direction from such agencies, the district will create policies and procedures to ensure proper distribution of the rebates received.

Finding No. 7: Facilities Management

Response: The District will consider developing written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related jobs, and document these evaluations. It should be noted that each year the Facilities Management Department reviews State Cost of Construction documents comparing "like projects" that have been completed throughout the Florida Panhandle. This information can be found on the Florida Department of Education's OEF website. Based on this data, the District feels confident that we are utilizing the most cost efficient methods of design, General contractor selection, and construction resulting from the competitive bid process as prescribed through State Statute.

In addition, the District will consider developing goals and objectives for the facilities planning and maintenance department to identify cost-effectiveness or efficiency outcomes for department personnel.

Finding No. 8: Fund Balance Reporting

Response: The District will enhance procedures so that fund balances will be properly classified. The District will also disclose the intended use of the resources.

Finding No. 9: Virtual Instruction Program Policies and Procedures

Response: The District will develop and maintain written policies and procedures to ensure effectiveness of its VIP operations and related activities.

Finding No. 10: Provider Contracts

Response: The District will amend our VIP contracts to ensure that statutorily required and other necessary provisions are included in our contracts with the approved FDOE VIP providers.

Finding No. 11: Virtual Instruction Options

Response: The District will ensure that the minimum number of VIP options is offered as required by law and that parents and students are aware of these options.

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

Finding No. 12: Provider Background Screenings

Response: The District will ensure that the provided background screenings are performed for all VIP provider employees and contracted personnel, as required by law.

Finding No. 13: Computing Resources

Response: The District will ensure that VIP students and their parents are properly notified of the availability of computing resources and that qualified VIP students are provided these computing resources.

Finding No. 14: Residual Funds

Response: The District will ensure that residual VIP funds are properly calculated, separately accounted for, and used for the purposes specified in Section 1002.45(1)(e)2., Florida Statutes.

Finding No. 15: Information Technology – Disaster Recovery Plan

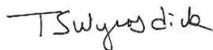
Response: The District plans to revise the disaster recovery plan to identify key recovery personnel through their job descriptions.

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

Response: The District has examined the details of the findings and has identified some items that need clarification in our procedures. The District will assess and evaluate the identified changes.

In conclusion, let me reflect the sincere feeling of our school board and staff concerning the professional manner in which your staff conducted this audit. In the process of the audit, there always exists a mutual professional respect and consideration of each one’s responsibility.

Sincerely,



Timothy S. Wyrosdick
Superintendent of Schools

/lle