

HAMILTON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Damon Deas, Chair	1
Gary Godwin, Vice Chair	2
Jeanie Daniels	3
Johnny Bullard	4
Sammy McCoy	5

Martha W. Butler, Superintendent to 11-19-12
Thomas P. Moffses, Jr., Superintendent from 11-20-12

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 Robert E. Taylor, and the audit was supervised by Cathy L. Bandy, CPA. For the information technology portion of this audit, the audit team leader was William Y. Marshall, 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.

HAMILTON COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY

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

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. 2: The District did not obtain an actuarial valuation supporting the amount of the reported liability for postemployment benefits provided by the District.

Finding No. 3: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: The District did not timely and prominently post all required budget information on its Web site.

Finding No. 5: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 6: Some inappropriate and unnecessary information technology (IT) access privileges existed.

Finding No. 7: District IT security controls related to user authentication, data loss prevention, and logging and monitoring of data changes and network security events 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 and School Improvement Grants Cluster 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. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

Audit Objectives and Scope

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

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

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2013-147.

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton 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 46 percent of the assets and 71 percent of the liabilities of the aggregate remaining fund information. Those statements, which were prepared on the cash basis, a special purpose framework, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of the school internal funds, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the school internal funds, prior to these conversion adjustments, is based solely on the report of the other auditors.

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

assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Hamilton 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.

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 Hamilton 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 District School Board of Hamilton County (District) has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

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

FINANCIAL HIGHLIGHTS

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

- The District's total net position decreased by \$864,446 (2.7 percent), from \$32,018,715 at June 30, 2012, to \$31,154,269 at June 30, 2013, due, in part, to the decrease in capital assets (depreciation exceeded additions to capital assets).
- During the 2012-13 fiscal year, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$218,433.
- The General Fund's assigned and unassigned fund balance decreased from \$1,111,580 as of June 30, 2012, to \$663,505 as of June 30, 2013, or from 9.3 percent to 5.6 percent of General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The financial statements present the District as a whole and by the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or school district to school district) and enhance the District's accountability. The basic financial statements consist of three components:

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

In addition, this report presents certain required supplementary information, which includes management's discussion and analysis and other information.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the 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.

The government-wide statements present the District's governmental activities. Most of the District's services include its educational programs: basic, 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.

Over a period of time, changes in the District's net position are an indication of improving or deteriorating financial condition. 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.

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 two broad categories discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

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

Notes to Financial Statements

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

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	
	<u>6-30-13</u>	<u>6-30-12</u>
Current and Other Assets	\$ 2,558,481	\$ 3,294,583
Capital Assets	<u>30,140,788</u>	<u>30,962,812</u>
Total Assets	<u>32,699,269</u>	<u>34,257,395</u>
Long-Term Liabilities	1,341,444	1,691,854
Other Liabilities	<u>203,556</u>	<u>546,826</u>
Total Liabilities	<u>1,545,000</u>	<u>2,238,680</u>
Net Position:		
Net Investment in Capital Assets	29,890,788	30,667,812
Restricted	1,566,672	1,450,028
Unrestricted Deficit	<u>(303,191)</u>	<u>(99,125)</u>
Total Net Position	<u>\$ 31,154,269</u>	<u>\$ 32,018,715</u>

The largest portion of the District’s net position (95.9 percent) 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.

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	\$ 241,115	\$ 252,171
Operating Grants and Contributions	892,378	1,102,439
Capital Grants and Contributions	15,841	15,347
General Revenues:		
Property Taxes, Levied for Operational Purposes	4,993,009	4,731,441
Property Taxes, Levied for Capital Projects	1,123,407	1,088,977
Grants and Contributions Not Restricted to Specific Programs	10,224,323	10,760,904
Unrestricted Investment Earnings	3,627	4,193
Miscellaneous	650,496	453,541
Total Revenues	18,144,196	18,409,013
Functions/Program Expenses:		
Instruction	7,800,366	7,973,095
Pupil Personnel Services	882,973	997,558
Instructional Media Services	174,725	170,260
Instruction and Curriculum Development Services	988,166	915,596
Instructional Staff Training Services	1,070,568	1,137,847
Instruction Related Technology	174,558	150,398
School Board	284,774	286,699
General Administration	370,963	434,497
School Administration	814,331	896,097
Facilities Acquisition and Construction	657,530	351,620
Fiscal Services	265,862	261,650
Food Services	1,147,652	1,151,654
Central Services	159,991	174,250
Pupil Transportation Services	1,332,224	1,257,694
Operation of Plant	1,431,970	1,632,807
Maintenance of Plant	358,488	302,346
Administrative Technology Services	100,965	56,858
Community Services	100,593	134,492
Unallocated Interest on Long-Term Debt	16,573	17,052
Unallocated Depreciation Expense	875,370	325,931
Loss on Disposal of Capital Assets		16,778
Total Functions/Program Expenses	19,008,642	18,645,179
Change in Net Position	(864,446)	(236,166)
Net Position - Beginning	32,018,715	32,254,881
Net Position - Ending	\$ 31,154,269	\$ 32,018,715

The largest revenue source is the State of Florida (34 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

This section provides an analysis of the balances and transactions of the individual major funds. The analysis addresses the reasons for significant changes in fund balances and the effect of the availability of fund resources for future use.

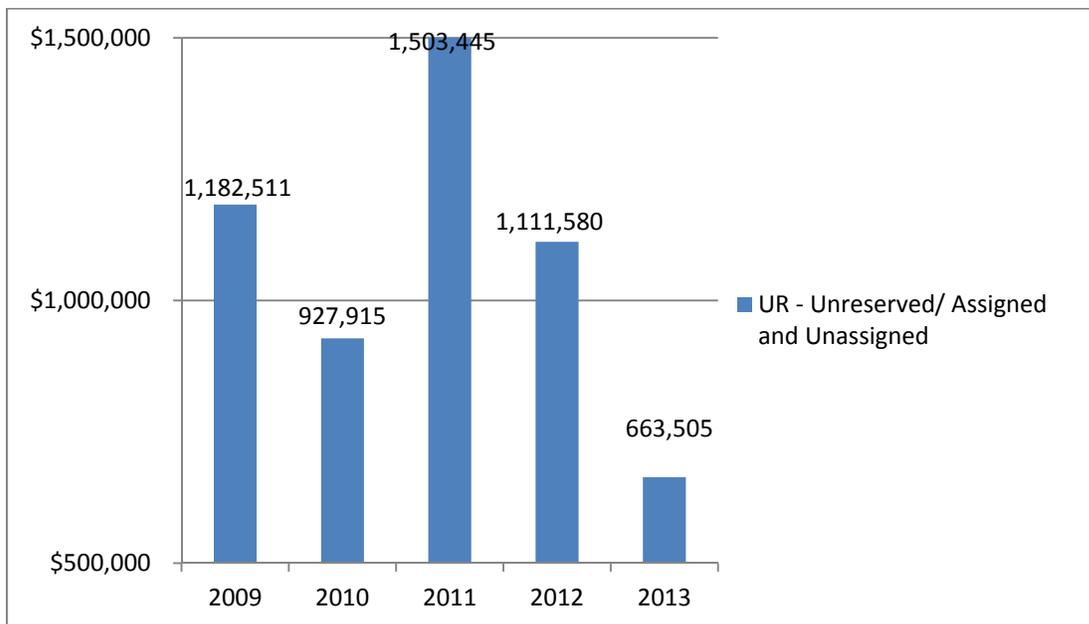
Governmental Funds

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 \$392,832 during the fiscal year to \$2,354,925 at June 30, 2013. Approximately 15.9 percent of this amount is unassigned fund balance (\$375,122), which is available for spending at the District’s discretion. The remainder of the fund balance is either not in spendable form (\$147,002), restricted for particular purposes (\$1,564,635), or assigned for particular purposes (\$268,166).

Major Governmental Funds

General Fund. The General Fund is the District’s chief operating fund. At the end of the current fiscal year, assigned and unassigned fund balance is \$663,505, while the total fund balance is \$1,290,580. The assigned and unassigned fund balance of the General Fund decreased from June 30, 2011 to June 30, 2013, due largely to decreases in enrollment resulting in decreased revenues. The following chart reflects these balances over the past five years.



Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund. The Special Revenue – Other Fund is used to account for the Federal grant programs and the Special Revenue – Federal Economic Stimulus Fund is used to account for the Federal economic stimulus grant programs. Allowed expenditures for these funds are specified by grant agreements and, since the revenues are equal to amounts expended, there are no ending fund balances.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$974,801, which is restricted for expenditures related to capital outlay. The fund balance decreased by \$140,699 for the purchase of school buses and other capital outlay.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2012-13 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$219,419 or 1.9 percent. At the same time, final appropriations are less than the original budgeted amounts by \$714,946. Budget revisions occurred primarily from adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

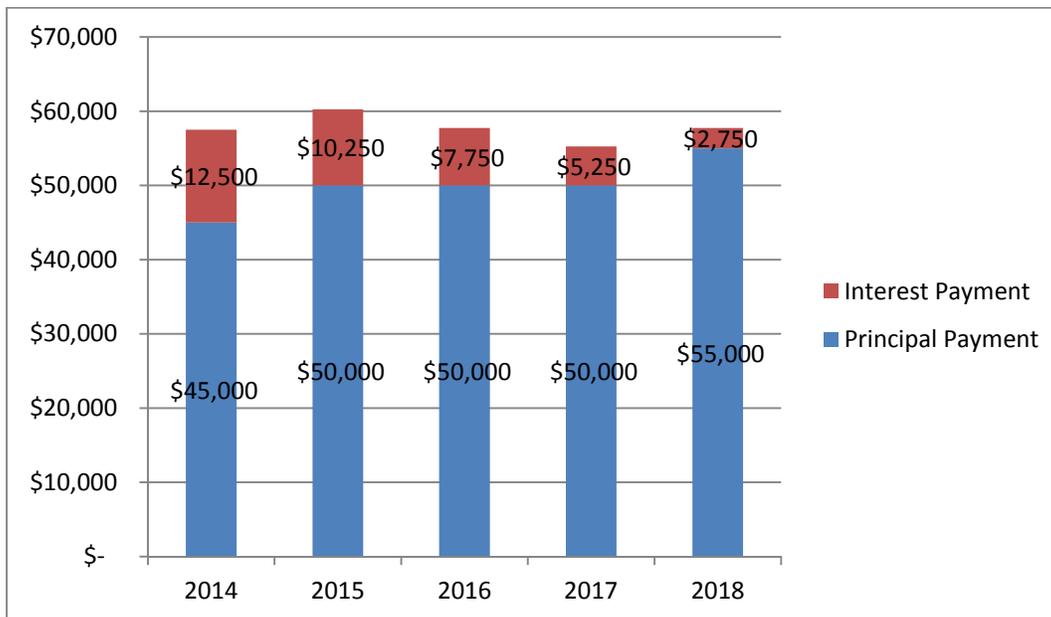
Actual revenues and expenditures equaled the final budgeted amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

The District’s investment in capital assets for its governmental activities at June 30, 2013, is \$30,140,788 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; and audio visual materials and computer software. There were no significant capital asset events for the 2012-13 fiscal year.

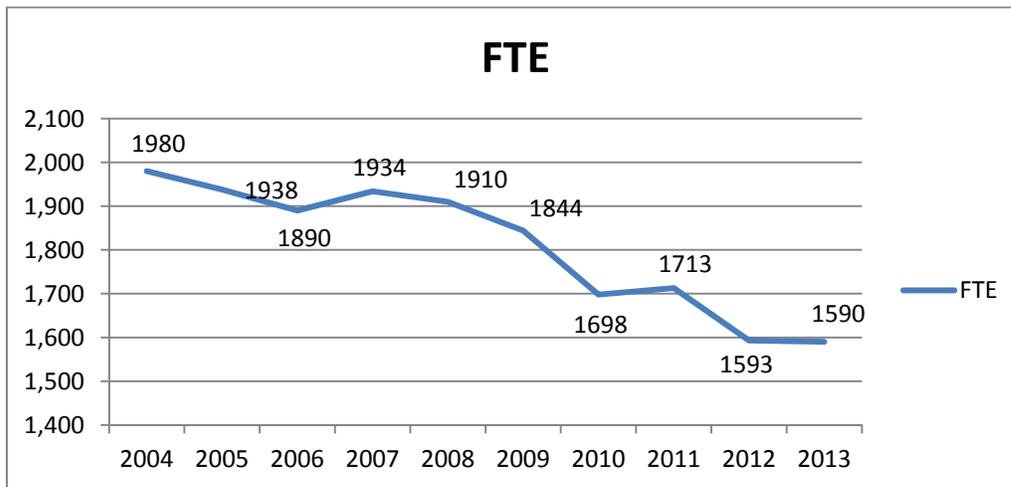
The District did not issue any new long-term debt during the 2012-13 fiscal year and, at this time, there are no plans for issuing any new debt.

The following chart reflects an estimate of the debt service requirements of the District over the next five fiscal years. The final payment on this debt will be in the 2017-18 fiscal year.



OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. Revenues from State and local sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. As shown in the following chart, the District has experienced a significant decline in FTE, which is used for funding purposes, over the past several years. The District enrolled its highest FTE in the 1995-96 fiscal year with 2,307. The decline in the 2011-12 fiscal year was made more significant by the closing of the Juvenile Justice program. This program generated 51 FTE in the 2010-11 fiscal year. For the 2012-13 fiscal year, the decline in FTE has leveled off.



REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Director of Business Services, Hamilton County School Board, 5683 US Highway 129 South, Suite 1, Jasper, FL 32052.

BASIC FINANCIAL STATEMENTS

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2013**

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,946,844.34
Investments	8,288.39
Accounts Receivable	89.99
Due from Other Agencies	456,256.16
Inventories	147,002.50
Capital Assets:	
Nondepreciable Capital Assets	490,000.00
Depreciable Capital Assets, Net	<u>29,650,788.03</u>
TOTAL ASSETS	<u>32,699,269.41</u>
LIABILITIES	
Salaries and Benefits Payable	39,329.85
Accounts Payable	55,575.55
Construction Contracts Payable	99,293.71
Construction Contracts Payable - Retainage	9,357.36
Long-Term Liabilities:	
Portion Due Within One Year	130,000.00
Portion Due After One Year	<u>1,211,443.78</u>
TOTAL LIABILITIES	<u>1,545,000.25</u>
NET POSITION	
Net Investment in Capital Assets	29,890,788.03
Restricted for:	
State Required Carryover Programs	502,326.80
Debt Service	8,288.39
Capital Projects	1,054,019.49
Food Service	2,037.25
Unrestricted	<u>(303,190.80)</u>
TOTAL NET POSITION	<u>\$ 31,154,269.16</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 7,800,365.88	\$ 36,567.66	\$ 62,507.87	\$	\$ (7,701,290.35)
Pupil Personnel Services	882,973.21				(882,973.21)
Instructional Media Services	174,724.99				(174,724.99)
Instruction and Curriculum Development Services	988,165.85				(988,165.85)
Instructional Staff Training Services	1,070,568.24				(1,070,568.24)
Instruction Related Technology	174,557.73				(174,557.73)
School Board	284,774.31				(284,774.31)
General Administration	370,963.10				(370,963.10)
School Administration	814,331.38				(814,331.38)
Facilities Acquisition and Construction	657,529.84			15,840.51	(641,689.33)
Fiscal Services	265,862.39				(265,862.39)
Food Services	1,147,652.00	170,473.49	829,869.78		(147,308.73)
Central Services	159,990.90				(159,990.90)
Pupil Transportation Services	1,332,224.10	34,074.27			(1,298,149.83)
Operation of Plant	1,431,969.89				(1,431,969.89)
Maintenance of Plant	358,487.64				(358,487.64)
Administrative Technology Services	100,965.42				(100,965.42)
Community Services	100,592.71				(100,592.71)
Unallocated Interest on Long-Term Debt	16,572.73				(16,572.73)
Unallocated Depreciation Expense*	875,369.65				(875,369.65)
Total Governmental Activities	\$ 19,008,641.96	\$ 241,115.42	\$ 892,377.65	\$ 15,840.51	(17,859,308.38)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes 4,993,008.61					
Property Taxes, Levied for Capital Projects 1,123,406.80					
Grants and Contributions Not Restricted to Specific Programs 10,224,323.20					
Unrestricted Investment Earnings 3,627.38					
Miscellaneous 650,496.25					
Total General Revenues 16,994,862.24					
Change in Net Position (864,446.14)					
Net Position - Beginning 32,018,715.30					
Net Position - Ending \$ 31,154,269.16					

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

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 778,643.02	\$	\$
Investments			
Accounts Receivable	89.99		
Due from Other Funds	476,473.75		
Due from Other Agencies		301,176.00	127,209.13
Inventories	124,747.66		
Total Assets	\$ 1,379,954.42	\$ 301,176.00	\$ 127,209.13
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 39,329.85	\$	\$
Accounts Payable	50,044.79		
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds		301,176.00	127,209.13
Total Liabilities	89,374.64	301,176.00	127,209.13
 Fund Balances:			
Nonspendable:			
Inventories	124,747.66		
Restricted for:			
State Required Carryover Programs	502,326.80		
Debt Service			
Capital Projects			
Total Restricted Fund Balance	502,326.80		
Assigned for:			
Board Approved Budget Items	268,165.67		
Unassigned Fund Balance	395,339.65		
Total Fund Balances	1,290,579.78		
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 1,379,954.42	 \$ 301,176.00	 \$ 127,209.13

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,088,982.89	\$ 79,218.43	\$ 1,946,844.34
	8,288.39	8,288.39
		89.99
		476,473.75
	27,871.03	456,256.16
	22,254.84	147,002.50
<u>\$ 1,088,982.89</u>	<u>\$ 137,632.69</u>	<u>\$ 3,034,955.13</u>
\$ 5,530.76	\$	\$ 39,329.85
99,293.71		55,575.55
9,357.36		99,293.71
		9,357.36
	48,088.62	476,473.75
<u>114,181.83</u>	<u>48,088.62</u>	<u>680,030.22</u>
	22,254.84	147,002.50
		502,326.80
	8,288.39	8,288.39
974,801.06	79,218.43	1,054,019.49
<u>974,801.06</u>	<u>87,506.82</u>	<u>1,564,634.68</u>
		268,165.67
	(20,217.59)	375,122.06
<u>974,801.06</u>	<u>89,544.07</u>	<u>2,354,924.91</u>
<u>\$ 1,088,982.89</u>	<u>\$ 137,632.69</u>	<u>\$ 3,034,955.13</u>

**HAMILTON 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 \$ 2,354,924.91

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 30,140,788.03

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

Bonds Payable	\$ 250,000.00	
Compensated Absences Payable	996,800.78	
Other Postemployment Benefits Payable	94,643.00	(1,341,443.78)
	94,643.00	(1,341,443.78)

Net Position - Governmental Activities \$ 31,154,269.16

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 108,405.89	\$	\$
Federal Through State and Local State	130,578.33	2,633,876.33	1,350,214.29
	6,063,129.05		
Local:			
Property Taxes	4,993,008.61		
Charges for Services	70,641.93		
Miscellaneous	568,635.83		
Total Local Revenues	5,632,286.37		
Total Revenues	11,934,399.64	2,633,876.33	1,350,214.29
Expenditures			
Current - Education:			
Instruction	6,239,444.11	1,129,101.98	592,745.30
Pupil Personnel Services	499,382.85	258,582.03	144,158.75
Instructional Media Services	167,659.10		11,071.19
Instruction and Curriculum Development Services	412,862.94	418,008.27	178,519.73
Instructional Staff Training Services	27,559.16	706,311.64	355,365.00
Instruction Related Technology	176,734.96		
School Board	284,774.31		
General Administration	231,968.78	89,799.48	53,162.74
School Administration	815,762.02	5,346.92	12,448.20
Facilities Acquisition and Construction			
Fiscal Services	271,560.72		
Food Services	53,390.59		
Central Services	151,001.08	9,905.78	2,322.00
Pupil Transportation Services	1,105,285.31	11,873.49	
Operation of Plant	1,435,798.93	4,946.74	421.38
Maintenance of Plant	366,776.67		
Administrative Technology Services	102,277.96		
Community Services	100,592.71		
Fixed Capital Outlay:			
Other Capital Outlay			
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	12,442,832.20	2,633,876.33	1,350,214.29
Excess (Deficiency) of Revenues Over Expenditures	(508,432.56)		
Other Financing Sources (Uses)			
Transfers In	340,000.00		
Insurance Loss Recoveries			
Transfers Out	(50,000.00)		
Total Other Financing Sources (Uses)	290,000.00		
Net Change in Fund Balances	(218,432.56)		
Fund Balances, Beginning	1,509,012.34		
Fund Balances, Ending	\$ 1,290,579.78	\$ 0.00	\$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	810,448.78	108,405.89
1,759.71	94,717.93	4,925,117.73
		6,159,606.69
1,123,406.80		6,116,415.41
	170,473.49	241,115.42
	237.58	568,873.41
<u>1,123,406.80</u>	<u>170,711.07</u>	<u>6,926,404.24</u>
1,125,166.51	1,075,877.78	18,119,534.55
		7,961,291.39
		902,123.63
		178,730.29
		1,009,390.94
		1,089,235.80
		176,734.96
		284,774.31
		374,931.00
		833,557.14
657,529.84		657,529.84
		271,560.72
	1,098,005.39	1,151,395.98
		163,228.86
		1,117,158.80
		1,441,167.05
		366,776.67
		102,277.96
		100,592.71
292,997.39		292,997.39
	45,000.00	45,000.00
	16,572.73	16,572.73
<u>950,527.23</u>	<u>1,159,578.12</u>	<u>18,537,028.17</u>
174,639.28	(83,700.34)	(417,493.62)
	50,000.00	390,000.00
24,661.27		24,661.27
(340,000.00)		(390,000.00)
<u>(315,338.73)</u>	<u>50,000.00</u>	<u>24,661.27</u>
(140,699.45)	(33,700.34)	(392,832.35)
1,115,500.51	123,244.41	2,747,757.26
<u>\$ 974,801.06</u>	<u>\$ 89,544.07</u>	<u>\$ 2,354,924.91</u>

**HAMILTON 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 \$ (392,832.35)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (822,024.28)

Repayment of long-term debt is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year. 45,000.00

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. 305,410.49

Change in Net Position - Governmental Activities \$ (864,446.14)

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

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

		Agency Funds
ASSETS		
Cash and Cash Equivalents	\$	114,051.00
Accounts Receivable		5,387.00
TOTAL ASSETS		119,438.00
LIABILITIES		
Accounts Payable	\$	12,878.00
Internal Accounts Payable		106,560.00
TOTAL LIABILITIES	\$	119,438.00

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

**HAMILTON 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. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

B. Reporting Entity

The Hamilton 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 Hamilton County.

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

C. Basis of Presentation: Government-wide Financial Statements

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

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

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 fund. Separate statements for each fund category – governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Major individual governmental funds are reported as separate columns in the fund financial statements. The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund types:

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

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

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

in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of 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. 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.

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 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.

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 investment pool created by Section 218.405, Florida Statutes. The investment pool operates 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

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

are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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 last invoice, which approximates the first-in, first-out basis, except that the 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 purchased during the year, and are adjusted at year-end to reflect year-end inventories.

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. 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.

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	40 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position.

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

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

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 bonds 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, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2013.

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

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

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.

3. District Property Taxes

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

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

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

The Board adopted the 2012 tax levy on September 10, 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 Hamilton County Tax Collector at fiscal year-end but not yet remitted to the District.

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to 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.

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

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 2,623.02
Debt Service Accounts	6 Months	8,288.39
Total Investments		<u>\$ 10,911.41</u>

Notes: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

➤ Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 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.

➤ 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 does not have a formal investment policy that limits its investment choices.

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

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

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

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	\$ 490,000.00	\$	\$	\$ 490,000.00
Total Capital Assets Not Being Depreciated	490,000.00			490,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	2,333,515.90			2,333,515.90
Buildings and Fixed Equipment	33,081,938.65			33,081,938.65
Furniture, Fixtures, and Equipment	3,863,215.90	79,334.19		3,942,550.09
Motor Vehicles	3,263,509.97	213,663.20		3,477,173.17
Audio Visual Materials and Computer Software	721,117.05			721,117.05
Total Capital Assets Being Depreciated	43,263,297.47	292,997.39		43,556,294.86
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	627,773.16	54,587.90		682,361.06
Buildings and Fixed Equipment	6,446,329.64	648,326.07		7,094,655.71
Furniture, Fixtures, and Equipment	3,303,547.31	153,613.84		3,457,161.15
Motor Vehicles	1,699,517.04	251,707.76		1,951,224.80
Audio Visual Materials and Computer Software	713,318.01	6,786.10		720,104.11
Total Accumulated Depreciation	12,790,485.16	1,115,021.67		13,905,506.83
Total Capital Assets Being Depreciated, Net	30,472,812.31	(822,024.28)		29,650,788.03
Governmental Activities Capital Assets, Net	\$ 30,962,812.31	\$ (822,024.28)	\$	\$ 30,140,788.03

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 232,153.86
Food Services	7,498.16
Unallocated	875,369.65
Total Depreciation Expense - Governmental Activities	\$ 1,115,021.67

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

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

described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

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

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, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$1,096,791.47, \$654,801.28, and \$685,229.93, respectively, which were equal to the required contributions for each fiscal year.

There were 30 District participants in the Investment Plan during the 2012-13 fiscal year. The District’s contributions, including employee contributions, to the Investment Plan totaled \$97,365.85, which was equal to the required contribution for the 2012-13 fiscal year.

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

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 and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval each year. Under this retirement incentive, retirees receive a \$50 per month rate subsidy until the retiree

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

reaches age 65. 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 by the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 35 retirees received other postemployment benefits. The District provided required contributions of \$171,887 toward the annual OPEB cost, net of retiree contributions totaling \$216,112, which represents 3.2 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	\$ 105,076
Amortization of Unfunded Actuarial Accrued Liability	64,570
Interest on Normal Cost and Amortization	2,241
Annual Required Contribution - OPEB Cost (Expense)	171,887
Contribution Toward the OPEB Cost	(171,887)
Change in Net OPEB Obligation	
Net OPEB Obligation, Beginning of Year	94,643
Net OPEB Obligation, End of Year	\$ 94,643

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

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	\$ 150,529	100%	\$ 94,643
2011-12	144,656	100%	94,643
2012-13	171,887	100%	94,643

Funded Status and Funding Progress. As of March 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$1,937,109, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,937,109, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$6,793,522, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.5 percent.

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

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

The District’s OPEB actuarial valuation as of March 1, 2009 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, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.7 percent initially for the 2008-09 fiscal year, reduced gradually over 60 years to an ultimate rate of 4.9. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization at June 30, 2013, was 25 years.

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

F. Risk Management Programs

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

Employee group health and hospitalization coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

G. Long-Term Liabilities

1. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 250,000	5.0	2018

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 57,500	\$ 45,000	\$ 12,500
2015	60,250	50,000	10,250
2016	57,750	50,000	7,750
2017	55,250	50,000	5,250
2018	57,750	55,000	2,750
Total State School Bonds	\$ 288,500	\$ 250,000	\$ 38,500

2. 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					
Bonds Payable	\$ 295,000.00	\$	\$ 45,000.00	\$ 250,000.00	\$ 45,000.00
Compensated Absences Payable	1,302,211.27	50,165.30	355,575.79	996,800.78	85,000.00
Other Postemployment Benefits Payable	94,643.00	171,887.00	171,887.00	94,643.00	
Total Governmental Activities	\$ 1,691,854.27	\$ 222,052.30	\$ 572,462.79	\$ 1,341,443.78	\$ 130,000.00

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

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

H. Fund Balance Reporting

- **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.

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

- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

I. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 476,473.75	\$
Special Revenue:		
Other		301,176.00
Federal Economic Stimulus		127,209.13
Nonmajor Governmental		48,088.62
Total	\$ 476,473.75	\$ 476,473.75

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

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:

Source	Amount
Florida Education Finance Program	\$ 3,889,613.00
Categorical Educational Program - Class Size Reduction	1,652,846.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	76,429.46
Workforce Development Program	71,754.00
School Recognition	29,761.00
Food Service Supplement	19,421.00
Mobile Home License Tax	7,857.96
Miscellaneous	411,924.27
Total	\$ 6,159,606.69

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

**HAMILTON 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:

	Millages	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.668	\$ 4,325,196.96
Basic Discretionary Local Effort	0.748	570,791.69
Critical Operating Needs	0.250	190,772.63
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	1,144,635.75
Total	8.166	\$ 6,231,397.03

K. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 340,000	\$ 50,000
Capital Projects:		
Local Capital Improvement		340,000
Nonmajor Governmental	50,000	
Total	\$ 390,000	\$ 390,000

Interfund transfers were to move restricted capital outlay revenues to offset eligible maintenance and property insurance premiums expenditures made in the General Fund and to supplement operations of the Special Revenue – Food Service Fund.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HAMILTON 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	\$ 63,298.00	\$ 108,405.89	\$ 108,405.89	\$
Federal Through State and Local	150,000.00	130,578.33	130,578.33	
State	6,206,752.00	6,063,129.05	6,063,129.05	
Local:				
Property Taxes	5,054,131.00	4,993,008.61	4,993,008.61	
Charges for Services		70,641.93	70,641.93	
Miscellaneous	240,800.00	568,635.83	568,635.83	
Total Local Revenues	5,294,931.00	5,632,286.37	5,632,286.37	
Total Revenues	11,714,981.00	11,934,399.64	11,934,399.64	
Expenditures				
Current - Education:				
Instruction	7,095,898.37	6,239,444.11	6,239,444.11	
Pupil Personnel Services	520,541.98	499,382.85	499,382.85	
Instructional Media Services	158,077.51	167,659.10	167,659.10	
Instruction and Curriculum Development Services	324,287.40	412,862.94	412,862.94	
Instructional Staff Training Services	11,281.00	27,559.16	27,559.16	
Instruction Related Technology	174,108.94	176,734.96	176,734.96	
School Board	292,876.66	284,774.31	284,774.31	
General Administration	217,828.69	231,968.78	231,968.78	
School Administration	718,746.13	815,762.02	815,762.02	
Facilities Acquisition and Construction	26,921.71			
Fiscal Services	268,218.55	271,560.72	271,560.72	
Food Services		53,390.59	53,390.59	
Central Services	148,284.99	151,001.08	151,001.08	
Pupil Transportation Services	1,161,087.94	1,105,285.31	1,105,285.31	
Operation of Plant	1,676,695.64	1,435,798.93	1,435,798.93	
Maintenance of Plant	297,738.21	366,776.67	366,776.67	
Administrative Technology Services	62,684.64	102,277.96	102,277.96	
Community Services	2,500.21	100,592.71	100,592.71	
Total Expenditures	13,157,778.57	12,442,832.20	12,442,832.20	
Excess (Deficiency) of Revenues Over Expenditures	(1,442,797.57)	(508,432.56)	(508,432.56)	
Other Financing Sources (Uses)				
Transfers In	340,000.00	340,000.00	340,000.00	
Transfers Out	(40,000.00)	(50,000.00)	(50,000.00)	
Total Other Financing Sources	300,000.00	290,000.00	290,000.00	
Net Change in Fund Balances	(1,142,797.57)	(218,432.56)	(218,432.56)	
Fund Balances, Beginning	1,509,012.34	1,509,012.34	1,509,012.34	
Fund Balances, Ending	\$ 366,214.77	\$ 1,290,579.78	\$ 1,290,579.78	\$ 0.00

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,430,276.40	\$ 2,633,876.33	\$ 2,633,876.33	\$	\$	\$ 1,350,214.29	\$ 1,350,214.29	\$
<u>2,430,276.40</u>	<u>2,633,876.33</u>	<u>2,633,876.33</u>			<u>1,350,214.29</u>	<u>1,350,214.29</u>	
833,828.40	1,129,101.98	1,129,101.98			592,745.30	592,745.30	
260,642.64	258,582.03	258,582.03			144,158.75	144,158.75	
					11,071.19	11,071.19	
424,901.00	418,008.27	418,008.27			178,519.73	178,519.73	
622,458.10	706,311.64	706,311.64			355,365.00	355,365.00	
251,650.35	89,799.48	89,799.48			53,162.74	53,162.74	
5,000.00	5,346.92	5,346.92			12,448.20	12,448.20	
9,000.00	9,905.78	9,905.78			2,322.00	2,322.00	
16,079.00	11,873.49	11,873.49					
6,716.91	4,946.74	4,946.74			421.38	421.38	
<u>2,430,276.40</u>	<u>2,633,876.33</u>	<u>2,633,876.33</u>			<u>1,350,214.29</u>	<u>1,350,214.29</u>	
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date (2)	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1)(2) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
March 1, 2009	\$ 0	\$ 1,937,109	\$ 1,937,109	0.0%	\$ 6,793,522	28.5%

Note: (1) The District did not obtain an actuarial valuation to support the other postemployment benefits liability at June 30, 2013.

(2) The District's OPEB valuation at March 1, 2009, used the projected unit credit method to estimate the actuarial accrued liability as of June 30, 2013.

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

I. BUDGETARY BASIS OF ACCOUNTING.

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HAMILTON 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	\$ 219,611.85
National School Lunch Program	10.555 (2)	300,350	554,990.64
Summer Food Service Program for Children	10.559	323	35,846.29
Total United States Department of Agriculture			810,448.78
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262,263	927,426.90
Special Education - Preschool Grants	84.173	266,267	122,946.15
Total Special Education Cluster			1,050,373.05
School Improvement Grants Cluster:			
Florida Department of Education:			
School Improvement Grants	84.377	126	259,955.92
ARRA - School Improvement Grants, Recovery Act	84.388	126	1,305,271.29
Total School Improvement Grants Cluster			1,565,227.21
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	30,972.11
Title I Grants to Local Educational Agencies	84.010	212,223,226,228	1,001,138.56
Career and Technical Education - Basic Grants to States	84.048	161	40,958.40
Education for Homeless Children and Youth	84.196	127	49,438.29
Rural Education	84.358	110	17,505.46
English Language Acquisition Grants	84.365	102	11,683.78
Improving Teacher Quality State Grants	84.367	224	171,850.76
ARRA - Education Technology State Grants, Recovery Act	84.386	122	29,933.13
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RG311	9,944.07
Education Jobs Fund	84.410	541	5,065.80
Total United States Department of Education			3,984,090.62
United States Department of Health and Human Services:			
Direct:			
Drug-Free Communities Support Program Grants	93.276	N/A	45,898.02
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	62,507.87
Total Expenditures of Federal Awards			\$ 4,902,945.29

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

(2) Noncash Assistance - National School Lunch Program. Includes \$25,922.06 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
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, each major fund, and the aggregate remaining fund information of the Hamilton 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, as described in our report on the Hamilton County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON 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 Hamilton 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. Our opinion on each major Federal program is not modified with respect to this matter.

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 that we consider to be a significant deficiency.

Management Response

Management's response to the finding identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

**HAMILTON 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?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
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?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.377 and 84.388	School Improvement Grants Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District’s 2012-13 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. District personnel generally identify and report current liabilities for the General Fund, but inadvertently did not identify and report certain amounts of accounts payable, construction contracts payable, and retainage payable for the Capital Projects – Local Capital Improvement Fund, resulting in understatements of liabilities by a total of \$114,181.83. Misreporting account balances and related transactions such as these may cause financial statement users to incorrectly assess the financial position of District capital projects funds.

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

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

ADDITIONAL MATTERS

Finding No. 2: Other Postemployment Benefits

Generally accepted accounting principles (GAAP) require the District to report an other postemployment benefits (OPEB) liability for its coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. GAAP further require that the District obtain an actuarial valuation of its OPEB plan at least biennially since, at June 30, 2013, its plan had 345 plan members, exceeding the minimum 200-member plan requirement for the actuarial study. In addition, according to GAAP, certain Actuarial Standards of Practice (ASOPs) must guide preparation of the actuarial study. For example, Section 3.1.2 of the *Introduction to the Actuarial Standards of Practice, March 2013*, provides, in part, that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon the ASOPs.

Contrary to GAAP, District personnel indicated that they elected to forego the services of a certified actuary as a cost savings measure and did not obtain the required biennial actuarial valuation, and instead elected to report the liability and related note disclosures as reported in the 2011-12 and 2010-11 fiscal year annual financial reports. District

personnel estimated that cost for the actuarial services would be approximately \$7,800. The OPEB expenses and related liability reported were not quantitatively material; however, there is an increased need for the District to obtain the required biennial actuarially-prepared study as the OPEB liability amount increases in future years due to its cumulative nature. A similar finding was noted in our report No. 2013-147.

Recommendation: The District should obtain an actuarial valuation of its OPEB plan biennially in accordance with GAAP.

Finding No. 3: Compensation and Salary Schedules

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

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

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2012-108 and 2013-147.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: Budget Transparency

It is important that the District provide easy access to its budget and related information as this promotes responsible spending, more citizen involvement, and improved accountability. Pursuant to Section 1011.035(2), Florida Statutes, the District must prominently post on its Web site a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable and readily accessible to the public.

As of July 8, 2013, the District had posted the 2012-13 fiscal year official budget to the District's Web site, however, the District inadvertently had not posted the proposed and tentative budgets for the 2012-13 fiscal year to its Web site. Subsequent to our inquiry, as of January 23, 2014, the District posted the 2013-14 fiscal year tentative and official budgets; however, the 2012-13 fiscal year proposed and tentative budgets had not been posted, nor was the 2013-14 fiscal year proposed budget posted. Providing for the required budgetary transparency enhances citizen involvement and the ability to analyze the budget, monitor its implementation, and evaluate its outcomes.

Recommendation: The District should enhance procedures to ensure that proposed, tentative, and official budgets are timely and prominently posted on its Web site.

Finding No. 5: Facilities Management

The District's facilities management team is responsible for managing outsourced construction and renovation projects and projects performed by the maintenance department, which is responsible for ensuring facilities are safe and suitable for their intended use. Maintenance department personnel also performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the department employed six employees and the department's operating cost was \$366,777. Also, during this fiscal year, the District had no expenditures 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 October 14, 2013, the District planned to spend \$300,000 on construction and renovation projects and \$3 million on maintenance 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 \$35.9 million and, as shown in the Florida Department of Education's (FDOE) Florida Inventory of School Houses data, the average ages of District permanent and mobile facilities were 36 and 21 years, respectively.

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 facilities and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities management team and maintenance 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 or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional competitive bid and construction manager at risk methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance department personnel based on safety and suitability priorities. 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 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.** District personnel indicated that the facilities management team and maintenance department had established goals, such as the timely completion of construction projects and significant maintenance-related job techniques; however, District records did not evidence written goals to address accountability for these personnel. To adequately establish outcome measures, the facilities management team and maintenance department could set goals such as completing renovation or remodeling 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 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 the facilities management team and maintenance department is operating as cost-effectively and efficiently as possible.

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

Finding No. 6: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions. Periodic reviews of IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

The District is a participating member of the North East Florida Educational Consortium (NEFEC). In addition to having its own IT employees, the District receives IT services from NEFEC through the Educational Technology Services (ETS) data center. Our test of selected access privileges to the District's finance and human resources (HR) applications disclosed that some District and ETS employees had access privileges that permitted employees to perform unnecessary and incompatible functions. Specifically:

- The ETS database administrator had the ability to update the District's critical finance and HR transactions. The access privileges were unnecessary and contrary to an appropriate separation of District end-users' duties and the administrator's responsibility to administer and maintain the applications' supporting infrastructure.
- The District's Technology and Information Services (TIS) coordinator and the TIS specialist had systemwide access privileges that allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data. In response to our inquiry, District management indicated that the access privileges were necessary to provide end-user support and modify and prepare data for State reporting. Nevertheless, complete update access privileges to the applications were not necessary for the coordinator's and specialist's responsibilities related to technical support of the application and were contrary to an appropriate separation of IT and end-user functions. Additionally, the TIS coordinator had the ability to update critical HR transactions, including adding employee information, updating pay rates and job positions, making time and payroll adjustments, and setting up direct deposit information, through assignment to an application security group.

In response to our inquiry, the TIS coordinator indicated the District periodically reviewed access assigned to application security groups and group members. District personnel also indicated that it was the ETS database administrator's practice to contact the District before accessing their system. The District had certain compensating controls in place (e.g., supervisory monitoring of finance and HR transactions, timely independent bank reconciliations, and supervisory review and approval of transactions such as journal entries and electronic funds transfers), and our review did not disclose any misuse as a result of the unnecessary and inappropriate access privileges

described above. However, the existence of these inappropriate or unnecessary access privileges indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of District and ETS employee access privileges within the finance and HR applications and remove inappropriate or unnecessary access privileges detected.

Finding No. 7: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Logging and Monitoring of Data Changes and Network Security Events

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 data changes and network security events 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 data changes and network security events, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding data loss prevention was communicated to District management in connection with our report No. 2013-147.

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

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Agriculture and Consumer Services (FDACS)

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget Circular A-87 provides, for charges to Federal awards for salaries and wages, that where employees are expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

For the 2012-13 fiscal year, the District reported Child Nutrition Cluster (CNC) programs expenditures of approximately \$810,000, of which salaries and benefits totaled approximately \$466,000 for 23 employees paid solely

from CNC programs and one employee paid partially from CNC programs. Our tests of four employees paid solely from CNC programs and one employee paid partially from CNC programs disclosed that the four employees paid solely from the CNC programs with salaries and benefits totaling \$70,221 did not maintain semiannual certifications or equivalent documentation and the one employee paid partially from the CNC programs with salaries and benefits totaling \$64,507 did not maintain required monthly personnel activity reports or equivalent documentation. Subsequent to our inquiries, the employees documented that their duties and responsibilities were properly charged to the programs.

Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program. A similar finding was noted in our report No. 2013-147.

Recommendation: The District should enhance its procedures to ensure that required documentation is maintained to support salary and benefit charges to Federal programs.

District Contact Person and Title: Ida Daniels, Coordinator of Food Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2013-147. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers
2	Audit Report No. 2013-147, Finding No. 1	NA
3	Audit Report No. 2013-147, Finding No. 2	Audit Report No. 2012-108, Finding No. 6
7	Audit Report No. 2013-147, Finding No. 4	Audit Report No. 2012-108, Finding No. 8
Federal Awards Finding No. 1	Audit Report No. 2013-147, Federal Awards Finding No. 1	NA

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

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HAMILTON 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
2013-147 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles	Required documentation to support personnel charges of Federal programs tested were not always maintained, contrary to Federal regulations.	Not corrected.	
2013-147 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Eligibility	Control deficiencies resulted in inaccurate meals claimed for Federal reimbursement and \$3,528 of questioned costs.	Corrected.	The grantor did not require restoration of questioned costs.

EXHIBIT A
MANAGEMENT’S RESPONSE



Hamilton County School District

5683 US Highway 129 South, Suite 1
Jasper, Florida 32052
Phone: 386.792.1228 – Fax: 386.792.3681

Thomas P. Moffses, Jr., Superintendent

School Board Members
Damon Deas – District 1
Gary Godwin – District 2
Jeanie Daniels – District 3
Johnny Bullard – District 4
Sammy McCoy – District 5

February 24, 2014

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

Dear Mr. Martin:

The management of the Hamilton County School District has reviewed the preliminary and tentative audit findings and offers the following in response:

Finding No. 1: Financial Reporting – District staff will make every effort to properly record and report financial statement accounts and transactions in the preparation of the annual financial report.

Finding No. 2: Other Postemployment Benefits – District staff maintains its position that an actuarial valuation of its OPEB plan biennially in accordance with GAAP far exceeds the actual benefits when the District continues to struggle financially with day to day operations in an economically depressed community.

Finding No. 3: Compensation and Salary Schedules - The Board, along with Management and Union representatives, continues to address the need to create a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: Budget Transparency – The District will post to its website all the necessary components of the budgetary process to ensure transparency in the proper timeframe to meet compliance requirements for budget transparency.

Finding No. 5: Facilities Management – The District understands that there should be written policies and procedures that detail the requirements needed for a periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. We understand that we should also establish goals and objectives for facilities management team and maintenance department to identify cost-effectiveness or efficiency outcomes for staff in these areas. While no formal written procedures exist, an unwritten rule in the General Services Department is now in practice which reflects implementation of the recommended changes. We look forward to demonstrating this in the future.

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



Hamilton County School District

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Thomas P. Moffses, Jr., Superintendent

School Board Members

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- Johnny Bullard – District 4
- Sammy McCoy – District 5

Finding No. 6: Information Technology – Access Privileges – The District continues to review and improve District access and ETS employee access privileges within the Finance and HR applications and address and detected inappropriate or unnecessary access privileges.

Finding No. 7: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Logging and Monitoring of Data Changes and Network Security Events – The District continues to work and improve IT security controls related to user authentication, data loss prevention, and logging and monitoring of data changes and network security events to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Federal Awards Finding No. 1 – Allowable Costs/Cost Principles – documentation of Time and Effort. The Hamilton County School District's Food and Nutrition Services Department has implemented Semi-Annual Certification procedures to document time and effort for its staff funded by Federal program dollars.

The District appreciates the efforts of the Auditor General staff during this audit. Their professionalism and knowledge helped make the process effective and positive.

Sincerely,

Thomas P. Moffses, Jr.
Superintendent

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