

STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-120
March 2016

HAMILTON COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Thomas P. Moffses, Jr., served as Superintendent and the following individuals served as Board members:

| | <u>District No.</u> |
|---|---------------------|
| Damon Deas to 11-17-14, Chair | 1 |
| Cheryl McCall from 11-18-14 | 1 |
| Gary Godwin, Vice Chair to 11-17-14, Chair from 11-18-14 | 2 |
| Jeanie Daniels | 3 |
| Johnny Bullard, Vice Chair from 11-18-14 | 4 |
| Sammy McCoy to 11-17-14 | 5 |
| Suzette Wiggins from 11-18-14 | 5 |

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

The team leader was Glenda K. Hart, CPA, and the audit was supervised by Cathy L. Bandy, CPA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Additional Matters

Finding 1: The Board has not established a documented process for identifying the instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in State law nor has the Board adopted salary schedules that specify the differentiated pay based on those factors. A similar finding was noted in our report No. 2015-140.

Finding 2: Some unnecessary and inappropriate information technology (IT) access privileges continue to exist.

Finding 3: District IT security controls related to data loss prevention and logging and monitoring of data changes and network security events need improvement. A similar finding was noted in our report No. 2015-140.

Finding 4: The District continues to lack a written, comprehensive IT disaster recovery plan.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster program was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on the Child Nutrition Cluster.

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 program; and
- Taken corrective actions for findings included in our report No. 2015-140.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

| |
|-------------------|
| AUDIT METHODOLOGY |
|-------------------|

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.



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of and for the fiscal year ended June 30, 2015, 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 29 percent of the assets and 85 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 from 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note II. to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, Budgetary Comparison Schedule – General and Major Special Revenue Funds, Schedule of Funding Progress – Other Postemployment Benefits Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of District Contributions – Florida Retirement System Pension Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of District Contributions – Health Insurance Subsidy Pension Plan, and Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Hamilton County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2015. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-15 fiscal year are as follows:

- As of June 30, 2015, the assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources by \$23,129,969.
- The District's total net position decreased \$7,200,288 from the 2013-14 fiscal year due, primarily, to the recognition of pension related liabilities and deferred outflows/inflows of resources required by GASB Statement No. 68.
- General revenues total \$17,180,718, or 91.1 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$1,687,710, or 8.9 percent of all revenues.
- Expenses total \$19,036,333. Only \$1,687,710 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$1,338,965, which is \$315,315 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balance was \$765,240, or 5.6 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

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

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

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

these funds are used only for their intended purposes. The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2015, compared to net position as of June 30, 2014:

| Net Position, End of Year | | |
|----------------------------------|------------------------------------|----------------------|
| | Governmental Activities | |
| | 6-30-15 | 6-30-14 |
| Current and Other Assets | \$ 2,991,781 | \$ 3,250,958 |
| Capital Assets | 28,524,126 | 29,079,803 |
| Total Assets | 31,515,907 | 32,330,761 |
| Deferred Outflows of Resources | 1,150,638 | - |
| Long-Term Liabilities | 5,866,663 | 1,188,897 |
| Other Liabilities | 481,405 | 811,608 |
| Total Liabilities | 6,348,068 | 2,000,505 |
| Deferred Inflows of Resources | 3,188,508 | - |
| Net Position: | | |
| Net Investment in Capital Assets | 28,295,083 | 28,874,803 |
| Restricted | 1,562,289 | 1,457,296 |
| Unrestricted Deficit | (6,727,403) | (1,842) |
| Total Net Position | \$ 23,129,969 | \$ 30,330,257 |

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

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position is a deficit of \$6,727,403, which is a decrease in the deficit position of \$6,725,561 over the prior fiscal year. The significant decrease in the deficit position represents the recording of the net pension liability as required by GASB 68 due to the District's participation in the Florida Retirement System, along with an increase in liabilities for compensated absences.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2015, and June 30, 2014, are as follows:

Operating Results for the Fiscal Year Ended

| | Governmental Activities | |
|---|------------------------------------|----------------------|
| | 6-30-15 | 6-30-14 |
| Program Revenues: | | |
| Charges for Services | \$ 173,779 | \$ 206,318 |
| Operating Grants and Contributions | 1,403,980 | 1,310,956 |
| Capital Grants and Contributions | 109,952 | 17,981 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 4,556,738 | 5,051,481 |
| Property Taxes, Levied for Capital Projects | 1,160,241 | 1,167,293 |
| Grants and Contributions Not Restricted to Specific Programs | 10,873,033 | 10,237,274 |
| Unrestricted Investment Earnings | 3,803 | 3,379 |
| Miscellaneous | 586,902 | 165,169 |
| Total Revenues | 18,868,428 | 18,159,851 |
| Functions/Program Expenses: | | |
| Instruction | 7,445,865 | 7,521,824 |
| Student Personnel Services | 652,126 | 630,831 |
| Instructional Media Services | 143,506 | 155,825 |
| Instruction and Curriculum Development Services | 625,867 | 698,378 |
| Instructional Staff Training Services | 1,125,329 | 693,786 |
| Instructional-Related Technology | 312,444 | 221,892 |
| Board | 416,578 | 402,266 |
| General Administration | 479,803 | 343,758 |
| School Administration | 894,318 | 806,490 |
| Facilities Acquisition and Construction | 194,712 | 1,293,894 |
| Fiscal Services | 268,547 | 281,217 |
| Food Services | 1,400,493 | 1,238,333 |
| Central Services | 176,378 | 173,190 |
| Student Transportation Services | 1,643,153 | 1,320,998 |
| Operation of Plant | 1,651,921 | 1,689,784 |
| Maintenance of Plant | 543,638 | 413,649 |
| Administrative Technology Services | 154,936 | 74,449 |
| Community Services | 11,576 | 100,584 |
| Unallocated Interest on Long-Term Debt | 6,690 | 14,347 |
| Unallocated Depreciation | 887,050 | 907,645 |
| Loss on Disposal of Capital Assets | 1,403 | 723 |
| Total Functions/Program Expenses | 19,036,333 | 18,983,863 |
| Change in Net Position | (167,905) | (824,012) |
| Net Position, Beginning of Year | 30,330,257 | 31,154,269 |
| Adjustment to Beginning Net Position (1) | (7,032,383) | - |
| Net Position - Beginning, as Restated | 23,297,874 | 31,154,269 |
| Net Position - Ending | \$ 23,129,969 | \$ 30,330,257 |

Note: (1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 68.

The largest revenue source is the State of Florida (44.2 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by \$635,759, or 6.2 percent, primarily due to the combined effect of an increase in FEFP's base funding and an increase in student enrollment by 65 students.

Capital grants and contributions revenue increased by \$91,971, or 511.5 percent. These revenues are received from the State and are for the acquisition, construction, and maintenance of educational facilities.

Property tax revenues decreased by \$501,795, or 8.1 percent, as a result of a decrease in taxable assessed values and a 7.5 percent decrease in the total millage rate.

Instruction expenses represent 39.1 percent of total governmental expenses in the 2014-15 fiscal year. Instruction expenses decreased by \$75,959, or 1 percent.

Instructional staff training expenses increased \$431,543, or 62.2 percent, due to the addition of new Federal grant funding received for teacher training.

There were no significant remodeling or renovation activities in the current fiscal year, resulting in a decrease in facilities acquisition and construction expenses from the prior year of \$1,099,182.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds increased by \$71,025 during the fiscal year to \$2,510,376 at June 30, 2015. Approximately 9.3 percent of this amount is unassigned fund balance (\$233,332), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is (1) not in spendable form (\$238,282), (2) restricted for particular purposes (\$1,506,854), or (3) assigned for particular purposes (\$531,908).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$233,332 while the total fund balance is \$1,338,965. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 5.6 percent of the total General Fund revenues, while total fund balance represents 9.8 percent of total General Fund revenues.

Total fund balance decreased by \$315,315 during the fiscal year. The key factor impacting the change in fund balance was the salary increase approved by the Board for all employees.

The Special Revenue – Other Fund has total revenues and expenditures of \$2,402,942 each and the funding was mainly used for instruction and instructional staff training. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Activity in this fund increased 8.8 percent and is primarily related to increase in Special Education Cluster funding used for exceptional student education.

The Capital Projects – Local Capital Improvement (LCI) Fund has a total fund balance of \$876,500. These funds are restricted for the acquisition, construction, and maintenance of capital assets. The total fund balance has been encumbered for specific LCI projects. The fund balance increased in the current fiscal year due to postponement of specific projects until the District was assured of the Special Facility Construction Account funding for the new elementary school project in the 2015-16 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$872,587, or 6.8 percent. At the same time, final appropriations are more than the original budgeted amounts by \$1,675,852 or 13 percent, creating a negative impact on the budgeted fund balance. Budget revisions occurred primarily from adjustments to planned expenditures due to Board approved salary increases and to recognize additional revenues and expenditures related to two new Federal projects recorded in the General Fund. Actual revenues and expenditures equaled the final budgeted amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2015, is \$28,524,126 (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; property under capital lease; and audio visual materials and computer software. The total decrease in capital assets for the current fiscal year was approximately 1.9 percent and related to depreciation expense exceeding the additions to capital assets.

Major capital asset events included the following:

- The District paid \$76,197 for land, which will be used as the new the agricultural program site. Its existing site will be the location of the new consolidated elementary school.
- Two buses, a van, and a pickup truck were purchased to improve the existing fleet for the District's vehicles used to transport students and staff.
- The District entered into a capital lease agreement to finance equipment used for the computer system upgrade at the Hamilton County High School.
- The District installed a jack stabilization system under North Hamilton Elementary School to improve the structural integrity of the building. This purchase is captured in Improvements Other than Buildings and was approximately \$50,000.

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

Long-Term Debt

At June 30, 2015, the District has total long-term debt outstanding of \$229,043, composed of \$143,000 of bonds payable and \$86,043 of lease-purchase payable. During the current fiscal year, retirement of debt was \$291,036, which included the refunding of State School Bonds, totaling \$155,000, and debt repayments of \$136,036.

Additional information on the District's long-term debt can be found in Notes III.I.1. through III.I.3. to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2015-16 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility Construction account. On August 14, 2015, the Board received the first of three Public Education Capital Outlay Special Facilities encumbrance authorizations in the amount of \$2,168,454.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Director of Business Services, Hamilton County District School Board, 5683 US Highway 129 South, Suite 1, Jasper, Florida, 32052.

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BASIC FINANCIAL STATEMENTS

Hamilton County District School Board Statement of Net Position June 30, 2015

| | Governmental Activities |
|---------------------------------------|------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 2,349,356.62 |
| Investments | 4,103.17 |
| Accounts Receivable | 195,593.07 |
| Due from Other Agencies | 204,446.13 |
| Inventories | 238,282.29 |
| Capital Assets: | |
| Nondepreciable Capital Assets | 566,197.38 |
| Depreciable Capital Assets, Net | 27,957,928.46 |
| TOTAL ASSETS | 31,515,907.12 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions | 1,150,638.00 |
| LIABILITIES | |
| Payroll Deductions and Withholdings | 96,792.91 |
| Accounts Payable | 381,492.00 |
| Due to Other Agencies | 418.64 |
| Advanced Revenues | 2,701.91 |
| Long-Term Liabilities: | |
| Portion Due Within One Year | 269,349.71 |
| Portion Due After One Year | 5,597,313.01 |
| TOTAL LIABILITIES | 6,348,068.18 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions | 3,188,508.00 |
| NET POSITION | |
| Net Investment in Capital Assets | 28,295,083.20 |
| Restricted for: | |
| State Required Carryover Programs | 390,877.25 |
| Debt Service | 4,103.17 |
| Capital Projects | 1,024,436.49 |
| Food Service | 142,871.43 |
| Unrestricted | (6,727,402.60) |
| TOTAL NET POSITION | \$ 23,129,968.94 |

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, 2015**

| Functions/Programs | Expenses | Program Revenues | |
|---|-------------------------|----------------------------|--|
| | | Charges for Services | Operating Grants and Contributions |
| Governmental Activities: | | | |
| Instruction | \$ 7,445,864.40 | \$ 29,290.64 | \$ 56,826.92 |
| Student Personnel Services | 652,126.32 | - | - |
| Instructional Media Services | 143,506.29 | - | - |
| Instruction and Curriculum Development Services | 625,867.04 | - | - |
| Instructional Staff Training Services | 1,125,329.18 | - | - |
| Instructional-Related Technology | 312,444.00 | - | - |
| Board | 416,578.33 | - | - |
| General Administration | 479,803.32 | - | - |
| School Administration | 894,317.38 | - | - |
| Facilities Acquisition and Construction | 194,712.31 | - | - |
| Fiscal Services | 268,547.01 | - | - |
| Food Services | 1,400,493.08 | 105,936.89 | 1,347,152.76 |
| Central Services | 176,377.74 | - | - |
| Student Transportation Services | 1,643,153.07 | 38,551.17 | - |
| Operation of Plant | 1,651,921.43 | - | - |
| Maintenance of Plant | 543,637.83 | - | - |
| Administrative Technology Services | 154,935.81 | - | - |
| Community Services | 11,576.22 | - | - |
| Unallocated Interest on Long-Term Debt | 6,689.40 | - | - |
| Unallocated Depreciation* | 887,050.14 | - | - |
| Loss on Disposal of Capital Assets | 1,402.65 | - | - |
| Total Governmental Activities | \$ 19,036,332.95 | \$ 173,778.70 | \$ 1,403,979.68 |

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Adjustment to Beginning Net Position

Net Position - Beginning, as Restated

Net Position - Ending

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

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

| Capital Grants and Contributions | | Net (Expense) Revenue and Changes in Net Position | |
|--|------------|--|-----------------|
| | | Governmental Activities | |
| \$ | - | \$ | (7,359,746.84) |
| | - | | (652,126.32) |
| | - | | (143,506.29) |
| | - | | (625,867.04) |
| | - | | (1,125,329.18) |
| | - | | (312,444.00) |
| | - | | (416,578.33) |
| | - | | (479,803.32) |
| | - | | (894,317.38) |
| 58,806.67 | | | (135,905.64) |
| | - | | (268,547.01) |
| | - | | 52,596.57 |
| | - | | (176,377.74) |
| | - | | (1,604,601.90) |
| | - | | (1,651,921.43) |
| 33,307.00 | | | (510,330.83) |
| | - | | (154,935.81) |
| | - | | (11,576.22) |
| 17,838.25 | | | 11,148.85 |
| | - | | (887,050.14) |
| | - | | (1,402.65) |
| \$ | 109,951.92 | | (17,348,622.65) |

| |
|------------------|
| 4,556,738.36 |
| 1,160,240.85 |
| 10,873,033.67 |
| 3,803.08 |
| 586,902.04 |
| 17,180,718.00 |
| (167,904.65) |
| 30,330,256.59 |
| (7,032,383.00) |
| 23,297,873.59 |
| \$ 23,129,968.94 |

**Hamilton County District School Board
Balance Sheet – Governmental Funds
June 30, 2015**

| | General Fund | Special Revenue - Other Fund | Capital Projects - Local Capital Improvement Fund |
|--|------------------------|---------------------------------------|--|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,253,678.47 | \$ - | \$ 882,522.92 |
| Investments | - | - | - |
| Accounts Receivable | 195,593.07 | - | - |
| Due from Other Funds | 130,655.88 | 5,117.66 | - |
| Due from Other Agencies | - | 164,712.15 | 4,045.76 |
| Inventories | 182,847.72 | - | - |
| TOTAL ASSETS | \$ 1,762,775.14 | \$ 169,829.81 | \$ 886,568.68 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Payroll Deductions and Withholdings | \$ 96,792.91 | \$ - | \$ - |
| Accounts Payable | 313,329.84 | 38,755.29 | 10,069.09 |
| Due to Other Funds | 13,687.66 | 130,655.88 | - |
| Due to Other Agencies | - | 418.64 | - |
| Advanced Revenues | - | - | - |
| Total Liabilities | 423,810.41 | 169,829.81 | 10,069.09 |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Inventories | 182,847.72 | - | - |
| Restricted for: | | | |
| State Required Carryover Programs | 390,877.25 | - | - |
| Debt Service | - | - | - |
| Capital Projects | - | - | 876,499.59 |
| Food Service | - | - | - |
| Total Restricted Fund Balance | 390,877.25 | - | 876,499.59 |
| Assigned for: | | | |
| Purchases on Order | 177,100.94 | - | - |
| Subsequent Year's Budget: | | | |
| Appropriation of Fund Balances | 354,806.93 | - | - |
| Total Assigned Fund Balance | 531,907.87 | - | - |
| Unassigned Fund Balance | 233,331.89 | - | - |
| Total Fund Balances | 1,338,964.73 | - | 876,499.59 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,762,775.14 | \$ 169,829.81 | \$ 886,568.68 |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 213,155.23 | \$ 2,349,356.62 |
| 4,103.17 | 4,103.17 |
| - | 195,593.07 |
| 8,570.00 | 144,343.54 |
| 35,688.22 | 204,446.13 |
| 55,434.57 | 238,282.29 |
| <u>\$ 316,951.19</u> | <u>\$ 3,136,124.82</u> |
| | |
| \$ - | \$ 96,792.91 |
| 19,337.78 | 381,492.00 |
| - | 144,343.54 |
| - | 418.64 |
| 2,701.91 | 2,701.91 |
| <u>22,039.69</u> | <u>625,749.00</u> |
| | |
| 55,434.57 | 238,282.29 |
| - | 390,877.25 |
| 4,103.17 | 4,103.17 |
| 147,936.90 | 1,024,436.49 |
| 87,436.86 | 87,436.86 |
| <u>239,476.93</u> | <u>1,506,853.77</u> |
| - | 177,100.94 |
| - | 354,806.93 |
| - | 531,907.87 |
| - | 233,331.89 |
| 294,911.50 | 2,510,375.82 |
| <u>\$ 316,951.19</u> | <u>\$ 3,136,124.82</u> |

**Hamilton County District School Board
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2015**

Total Fund Balances - Governmental Funds \$ 2,510,375.82

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. 28,524,125.84

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

| | | |
|---------------------------------------|-----------------------|----------------|
| Deferred Outflows Related to Pensions | \$ 1,150,638.00 | |
| Deferred Inflows Related to Pensions | <u>(3,188,508.00)</u> | (2,037,870.00) |

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

| | | |
|---------------------------------------|--------------------|-----------------------|
| Obligation Under Capital Lease | \$ (86,042.64) | |
| Bonds Payable | (143,000.00) | |
| Compensated Absences Payable | (1,031,488.08) | |
| Net Pension Liability | (4,517,143.00) | |
| Other Postemployment Benefits Payable | <u>(88,989.00)</u> | <u>(5,866,662.72)</u> |

Net Position - Governmental Activities \$ 23,129,968.94

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, 2015**

| | General Fund | Special Revenue - Other Fund | Capital Projects - Local Capital Improvement Fund |
|--|------------------------|---------------------------------------|--|
| Revenues | | | |
| Intergovernmental: | | | |
| Federal Direct | \$ 56,826.92 | \$ - | \$ - |
| Federal Through State and Local | 264,251.62 | 2,402,941.63 | - |
| State | 8,204,045.42 | - | - |
| Local: | | | |
| Property Taxes | 4,556,738.36 | - | 1,160,240.85 |
| Charges for Services - Food Service | - | - | - |
| Miscellaneous | 638,294.86 | - | - |
| Total Local Revenues | <u>5,195,033.22</u> | <u>-</u> | <u>1,160,240.85</u> |
| Total Revenues | <u>13,720,157.18</u> | <u>2,402,941.63</u> | <u>1,160,240.85</u> |
| Expenditures | | | |
| Current - Education: | | | |
| Instruction | 6,919,071.82 | 925,387.85 | - |
| Student Personnel Services | 441,672.55 | 205,770.90 | - |
| Instructional Media Services | 141,718.51 | - | - |
| Instruction and Curriculum Development Services | 280,171.15 | 342,074.27 | - |
| Instructional Staff Training Services | 422,686.96 | 695,140.15 | - |
| Instructional - Related Technology | 311,402.05 | - | - |
| Board | 414,043.84 | - | - |
| General Administration | 286,243.17 | 181,922.28 | - |
| School Administration | 888,148.58 | 2,961.96 | - |
| Facilities Acquisition and Construction | - | - | 198,736.41 |
| Fiscal Services | 268,547.01 | - | - |
| Food Services | - | - | - |
| Central Services | 171,460.22 | 2,775.66 | - |
| Student Transportation Services | 1,363,339.22 | 11,865.62 | - |
| Operation of Plant | 1,639,341.84 | 7,360.54 | - |
| Maintenance of Plant | 539,474.66 | - | - |
| Administrative Technology Services | 153,854.08 | - | - |
| Community Services | 11,576.22 | - | - |
| Fixed Capital Outlay: | | | |
| Facilities Acquisition and Construction | 76,197.38 | - | - |
| Other Capital Outlay | 151,730.27 | 27,682.40 | 324,474.58 |
| Debt Service: | | | |
| Principal | 86,036.21 | - | - |
| Interest and Fiscal Charges | - | - | - |
| Total Expenditures | <u>14,566,715.74</u> | <u>2,402,941.63</u> | <u>523,210.99</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(846,558.56)</u> | <u>-</u> | <u>637,029.86</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | 355,000.00 | - | - |
| Issuance of Bonds | - | - | - |
| Premium on Sale of Bonds | - | - | - |
| Proceeds of Capital Lease Agreement | 172,078.85 | - | - |
| Payments to Refunding Escrow Agent | - | - | - |
| Loss Recoveries | 4,164.37 | - | - |
| Transfers Out | - | - | (355,000.00) |
| Total Other Financing Sources (Uses) | <u>531,243.22</u> | <u>-</u> | <u>(355,000.00)</u> |
| Net Change in Fund Balances | <u>(315,315.34)</u> | <u>-</u> | <u>282,029.86</u> |
| Fund Balances, Beginning | <u>1,654,280.07</u> | <u>-</u> | <u>594,469.73</u> |
| Fund Balances, Ending | <u>\$ 1,338,964.73</u> | <u>\$ 0.00</u> | <u>\$ 876,499.59</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 56,826.92 |
| 1,322,686.97 | 3,989,880.22 |
| 136,212.71 | 8,340,258.13 |
| - | 5,716,979.21 |
| 105,936.89 | 105,936.89 |
| 18.96 | 638,313.82 |
| <u>105,955.85</u> | <u>6,461,229.92</u> |
| <u>1,564,855.53</u> | <u>18,848,195.19</u> |
| - | 7,844,459.67 |
| - | 647,443.45 |
| - | 141,718.51 |
| - | 622,245.42 |
| 2,677.46 | 1,120,504.57 |
| - | 311,402.05 |
| - | 414,043.84 |
| 250.07 | 468,415.52 |
| - | 891,110.54 |
| - | 198,736.41 |
| - | 268,547.01 |
| 1,394,020.91 | 1,394,020.91 |
| - | 174,235.88 |
| - | 1,375,204.84 |
| - | 1,646,702.38 |
| - | 539,474.66 |
| - | 153,854.08 |
| - | 11,576.22 |
| - | 76,197.38 |
| 10,976.16 | 514,863.41 |
| 50,000.00 | 136,036.21 |
| 6,689.40 | 6,689.40 |
| <u>1,464,614.00</u> | <u>18,957,482.36</u> |
| <u>100,241.53</u> | <u>(109,287.17)</u> |
| - | 355,000.00 |
| 143,000.00 | 143,000.00 |
| 13,559.03 | 13,559.03 |
| - | 172,078.85 |
| (159,542.81) | (159,542.81) |
| 7,052.52 | 11,216.89 |
| - | (355,000.00) |
| <u>4,068.74</u> | <u>180,311.96</u> |
| 104,310.27 | 71,024.79 |
| 190,601.23 | 2,439,351.03 |
| <u>\$ 294,911.50</u> | <u>\$ 2,510,375.82</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, 2015

Net Change in Fund Balances - Governmental Funds \$ 71,024.79

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. (554,274.30)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (1,402.65)

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

| | | | |
|--------------------------------------|----|--------------|-------------|
| Inception of Capital Lease Agreement | \$ | (172,078.85) | |
| Capital Lease Repayments | | 86,036.21 | |
| Proceeds of Bonds Issued | | (143,000.00) | |
| Bonds Refunded | | 155,000.00 | |
| Bond Repayments | | 50,000.00 | (24,042.64) |

Pension costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net change in the pension liabilities in the current fiscal year.

| | | | |
|--------------------------|----|--------------|------------|
| FRS Pension Contribution | \$ | 642,824.00 | |
| HIS Pension Contribution | | 123,068.00 | |
| FRS Pension Expense | | (133,095.00) | |
| HIS Pension Expense | | (155,427.00) | 477,370.00 |

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 earned in excess of the amount paid in the current fiscal year. (142,233.85)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the other postemployment benefits liability for the current fiscal year. 5,654.00

Change in Net Position - Governmental Activities **\$ (167,904.65)**

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

| | Agency Funds |
|---------------------------|----------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 127,263.00 |
| LIABILITIES | |
| Accounts Payable | 10,042.00 |
| Internal Accounts Payable | 117,221.00 |
| Total Liabilities | \$ 127,263.00 |

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NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Hamilton County School District (District). All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and food service departments is allocated to the student transportation services and food services functions, 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 (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of 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.

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund type:

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While these balances are reported in 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 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, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of 3 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 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 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 physical 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 Useful 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 |
| Property Under Capital Lease | 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. Pensions

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

The District's retirement plans and related amounts are described in a subsequent note.

6. 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. Governmental fund types recognize debt premiums and discounts during the current period. The face amount of debt issued and premiums are reported as other financing sources.

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category. The deferred outflows of resources related to pensions are discussed in a subsequent note.

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

8. Net Position Flow Assumption

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

9. 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.

10. 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, 2015.

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 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 FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based

upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE.

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

3. District Property Taxes

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

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

The Board adopted the 2014 tax levy on September 8, 2014. 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. ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 68. The District participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As a participating employer, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the District was decreased by \$7,032,383 due to the adoption of this Statement.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

B. Investments

As of June 30, 2015, the District had the following investments:

| <u>Investments</u> | <u>Maturities</u> | <u>Fair Value</u> |
|--------------------------|-------------------|--------------------|
| SBA: | | |
| Florida PRIME (1) | 34 Day Average | \$ 3,028.18 |
| Debt Service Accounts | 6 Months | 4,103.17 |
| Total Investments | | \$ 7,131.35 |

Note: (1) Investment 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 uses a weighted average days to maturity (WAM). 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.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------------|--------------------|---------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 490,000.00 | \$ 76,197.38 | \$ - | \$ 566,197.38 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 2,333,515.90 | 64,634.16 | - | 2,398,150.06 |
| Buildings and Fixed Equipment | 33,081,938.65 | - | 4,493.00 | 33,077,445.65 |
| Furniture, Fixtures, and Equipment | 3,877,354.46 | 80,373.54 | 1,753.31 | 3,955,974.69 |
| Motor Vehicles | 3,477,173.17 | 253,816.00 | - | 3,730,989.17 |
| Property Under Capital Lease | - | 115,768.81 | - | 115,768.81 |
| Audio Visual Materials and Computer Software | 719,491.99 | 4,295.00 | - | 723,786.99 |
| Total Capital Assets Being Depreciated | 43,489,474.17 | 518,887.51 | 6,246.31 | 44,002,115.37 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 751,948.96 | 59,953.75 | - | 811,902.71 |
| Buildings and Fixed Equipment | 7,779,156.71 | 695,081.62 | 4,493.00 | 8,469,745.33 |
| Furniture, Fixtures, and Equipment | 3,425,470.14 | 126,810.23 | 350.66 | 3,551,929.71 |
| Motor Vehicles | 2,224,458.47 | 255,836.88 | - | 2,480,295.35 |
| Property Under Capital Lease | - | 11,576.88 | - | 11,576.88 |
| Audio Visual Materials and Computer Software | 718,637.10 | 99.83 | - | 718,736.93 |
| Total Accumulated Depreciation | 14,899,671.38 | 1,149,359.19 | 4,843.66 | 16,044,186.91 |
| Total Capital Assets Being Depreciated, Net | 28,589,802.79 | (630,471.68) | 1,402.65 | 27,957,928.46 |
| Governmental Activities Capital Assets, Net | <u>\$ 29,079,802.79</u> | <u>\$ (554,274.30)</u> | <u>\$ 1,402.65</u> | <u>\$ 28,524,125.84</u> |

The class of property under capital lease is presented in Note III.H.1.

Depreciation expense was charged to functions as follows:

| <u>Function</u> | <u>Amount</u> |
|--|------------------------|
| GOVERNMENTAL ACTIVITIES | |
| Food Services | \$ 6,472.17 |
| Student Transportation Services | 255,836.88 |
| Unallocated | 887,050.14 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 1,149,359.19</u> |

D. Retirement Plans

1. Florida Retirement System (FRS) – Defined Benefit Pension Plans

General Information about the FRS

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

Essentially all regular employees of the District are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The District's FRS and HIS pension expense totaled \$288,522 for the fiscal year ended June 30, 2015.

FRS Pension Plan

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision;

however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were as follows:

| <u>Class</u> | <u>Percent of Gross Salary</u> | |
|---------------------------------------|--------------------------------|---------------------|
| | <u>Employee</u> | <u>Employer (1)</u> |
| FRS, Regular | 3.00 | 7.37 |
| FRS, Elected County Officers | 3.00 | 43.24 |
| DROP - Applicable to | | |
| Members from All of the Above Classes | 0.00 | 12.28 |
| FRS, Reemployed Retiree | (2) | (2) |

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.
(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled \$642,824 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a liability of \$1,617,865 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.026515981 percent, which was a decrease of 0.000724625 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized the Plan pension expense of \$133,095. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 100,118 |
| Change of assumptions | 280,186 | - |
| Net difference between projected and actual earnings on FRS pension plan investments | - | 2,698,867 |
| Changes in proportion and differences between District FRS contributions and proportionate share of contributions | - | 104,940 |
| District FRS contributions subsequent to the measurement date | 642,824 | - |
| Total | \$ 923,010 | \$ 2,903,925 |

The deferred outflows of resources related to pensions, totaling \$642,824, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction

of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u> |
|-----------------------------------|-----------------------|
| 2016 | \$ (660,545) |
| 2017 | (660,545) |
| 2018 | (660,545) |
| 2019 | (660,545) |
| 2020 | 14,172 |
| Thereafter | 4,269 |
| Total | \$ (2,623,739) |

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.60 percent |
| Salary increases | 3.25 percent, average, including inflation |
| Investment rate of return | 7.65 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

| Asset Class | Target Allocation (1) | Annual Arithmetic Return | Compound Annual (Geometric) Return | Standard Deviation |
|-------------------------------|----------------------------------|---|---|-------------------------------|
| Cash | 1.00% | 3.11% | 3.10% | 1.65% |
| Intermediate-Term Bonds | 18.00% | 4.18% | 4.05% | 5.15% |
| High Yield Bonds | 3.00% | 6.79% | 6.25% | 10.95% |
| Broad US Equities | 26.50% | 8.51% | 6.95% | 18.90% |
| Developed Foreign Equities | 21.20% | 8.66% | 6.85% | 20.40% |
| Emerging Market Equities | 5.30% | 11.58% | 7.60% | 31.15% |
| Private Equity | 6.00% | 11.80% | 8.11% | 30.00% |
| Hedge Funds / Absolute Return | 7.00% | 5.81% | 5.35% | 10.00% |
| Real Estate (Property) | 12.00% | 7.11% | 6.35% | 13.00% |
| Total | 100.00% | | | |
| Assumed inflation - Mean | | 2.60% | | 2.00% |

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

| | 1% Decrease (6.65%) | Current Discount Rate (7.65%) | 1% Increase (8.65%) |
|--|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$ 6,919,822 | \$ 1,617,865 | \$ (2,792,352) |

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

HIS Pension Plan

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

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

Benefits Provided. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$123,068 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a net pension liability of \$2,899,278 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.031007513 percent, which was a decrease of 0.003795902 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized the HIS Plan pension expense of \$155,427. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description</u> | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 103,168 | \$ - |
| Net difference between projected and actual earnings on HIS pension plan investments | 1,392 | - |
| Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions | - | 284,583 |
| District contributions subsequent to the measurement date | 123,068 | - |
| Total | \$ 227,628 | \$ 284,583 |

The deferred outflows of resources, totaling \$123,068, was related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u> |
|-----------------------------------|---------------------|
| 2016 | \$ (28,912) |
| 2017 | (28,912) |
| 2018 | (28,912) |
| 2019 | (28,912) |
| 2020 | (29,260) |
| Thereafter | (35,115) |
| Total | \$ (180,023) |

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------|--|
| Inflation | 2.60 percent |
| Salary increases | 3.25 percent, average, including inflation |
| Municipal bond rate | 4.29 percent |

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

While an experience study had not been completed for the plan, the FRS Actuarial Assumptions Conference reviewed the actuarial assumptions for the plan.

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal

to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

| | 1% Decrease (3.29%) | Current Discount Rate (4.29%) | 1% Increase (5.29%) |
|--|------------------------------------|--|------------------------------------|
| District's proportionate share of the net pension liability | \$3,297,694 | \$ 2,899,278 | \$2,566,715 |

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

2. FRS – Defined Contribution Pension Plan

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

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

The District's Investment Plan pension expense totaled \$152,194 for the fiscal year ended June 30, 2015.

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 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 2014-15 fiscal year, 37 retirees received other

postemployment benefits. The District provided required contributions of \$132,182 toward the annual OPEB cost, net of retiree contributions totaling \$213,854, which represents 2.1 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 1 year) | \$ 34,174 |
| Amortization of Unfunded Actuarial Accrued Liability | 96,501 |
| Interest on Normal Cost and Amortization | 1,507 |
| Annual Required Contribution | 132,182 |
| Interest on Net OPEB Obligation | 3,313 |
| Adjustment to Annual Required Contribution | (8,967) |
| Annual OPEB Cost (Expense) | 126,528 |
| Contribution Toward the OPEB Cost | (132,182) |
| Decrease in Net OPEB Obligation | (5,654) |
| Net OPEB Obligation, Beginning of Year | 94,643 |
| Net OPEB Obligation, End of Year | \$ 88,989 |

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, 2015, and the 2 preceding fiscal years, were as follows:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|--------------------|-----------------------------|---|--------------------------------|
| 2012-13 | \$ 171,887 | 100.0% | \$ 94,643 |
| 2013-14 | 169,484 | 100.0% | 94,643 |
| 2014-15 | 126,528 | 104.5% | 88,989 |

Funded Status and Funding Progress. As of March 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$1,054,161, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,054,161 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$10,089,373, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.4 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, 2015, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2015, and to estimate the District's 2014-15 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.5 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/inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 6.5 percent initially beginning March 1, 2015, reduced gradually over 70 years to an ultimate rate of 4.6 percent. The unfunded actuarial accrued liability is being amortized as a level percent of payroll on a closed basis over a 11.1955-year basis. The remaining amortization period at June 30, 2015, was 11.1955 years.

F. Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2015:

| Major Funds | | | | |
|----------------------|--|---|--|---|
| General | Special Revenue - Other | Capital Projects - Local Capital Improvement | Nonmajor Governmental Funds | Total Governmental Funds |
| <u>\$ 177,100.94</u> | <u>\$ 137,887.13</u> | <u>\$ 876,499.59</u> | <u>\$ 143,574.29</u> | <u>\$ 1,335,061.95</u> |

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hamilton County District School Board is a member of the North East Florida Educational Consortium (Consortium) 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 the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Putnam County District School Board serves as fiscal agent for the Consortium.

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

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

H. Lease Obligations

1. Obligation Under Capital Lease

The class and amount of property being acquired under capital lease is as follows:

| | <u>Asset Balances</u> |
|---------------------------|-----------------------|
| Data Processing Equipment | <u>\$ 115,768.81</u> |

Future minimum capital lease payments as of June 30 are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> |
|-----------------------------------|---------------------|
| 2016 | \$ 43,019.71 |
| 2017 | <u>43,022.93</u> |
| Total Minimum Lease Payments | <u>\$ 86,042.64</u> |

The stated interest rate is 0 percent.

I. Long-Term Liabilities

1. Bonds Payable

Bonds payable at June 30, 2015, are as follows:

| <u>Bond Type</u> | <u>Amount Outstanding</u> | <u>Interest Rates (Percent)</u> | <u>Annual Maturity To</u> |
|-------------------------|-------------------------------|---|-----------------------------------|
| State School Bonds: | | | |
| Series 2014B, Refunding | <u>\$ 143,000.00</u> | 2.0 - 5.0 | 2020 |

These bonds are issued by the State Board of Education (SBE) on behalf of the District to finance capital outlay projects. 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.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------------|----------------------|----------------------|---------------------|
| State School Bonds: | | | |
| 2016 | \$ 48,531.77 | \$ 41,000.00 | \$ 7,531.77 |
| 2017 | 48,920.00 | 44,000.00 | 4,920.00 |
| 2018 | 49,720.00 | 47,000.00 | 2,720.00 |
| 2019 | 5,370.00 | 5,000.00 | 370.00 |
| 2020 | <u>6,120.00</u> | <u>6,000.00</u> | <u>120.00</u> |
| Total State School Bonds | <u>\$ 158,661.77</u> | <u>\$ 143,000.00</u> | <u>\$ 15,661.77</u> |

2. Defeased Debt

On December 2, 2014, the SBE issued \$129,880,000 of the SBE Capital Outlay Refunding Bonds, Series 2014B. The proceeds of the bonds were used, in part, to refund callable portions of the SBE Capital Outlay Bonds, Series 2005B, including \$155,000 of the District's bonds. The SBE Capital Outlay Bonds, Series 2005B, bonds were called on January 1, 2015. The District's portion of the refunding SBE Capital Outlay Bonds, Series 2014B, was \$143,000. The refunding of the Series 2005B Bonds reduced the District's total debt service payments by \$12,088.23.

3. Changes in Long-Term Liabilities

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

| Description | Beginning Balance | Additions | Deductions | Ending Balance | Due In One Year |
|---------------------------------------|------------------------|------------------------|------------------------|------------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Obligations Under Capital Lease | \$ - | \$ 172,078.85 | \$ 86,036.21 | \$ 86,042.64 | \$ 43,019.71 |
| Bonds Payable | 205,000.00 | 143,000.00 | 205,000.00 | 143,000.00 | 41,000.00 |
| Compensated Absences Payable | 889,254.23 | 281,127.42 | 138,893.57 | 1,031,488.08 | 88,000.00 |
| Net Pension Liability (1) | 7,719,416.00 | 673,268.00 | 3,875,541.00 | 4,517,143.00 | 97,330.00 |
| Other Postemployment Benefits Payable | 94,643.00 | 126,528.00 | 132,182.00 | 88,989.00 | - |
| Total Governmental Activities | \$ 8,908,313.23 | \$ 1,396,002.27 | \$ 4,437,652.78 | \$ 5,866,662.72 | \$ 269,349.71 |

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

For the governmental activities, compensated absences, pension liabilities, and other postemployment benefits are generally liquidated with resources of the General Fund. Due to the nature of the liability, there are no amounts due in 1 year for other postemployment benefits.

J. Fund Balance Reporting

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

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

K. 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 | \$ 130,655.88 | \$ 13,687.66 |
| Special Revenue: | | |
| Other | 5,117.66 | 130,655.88 |
| Nonmajor Governmental | 8,570.00 | - |
| Total | \$ 144,343.54 | \$ 144,343.54 |

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 1 year.

L. Revenues

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2014-15 fiscal year:

| <u>Source</u> | <u>Amount</u> |
|---|------------------------|
| Florida Education Finance Program | \$ 5,945,123.00 |
| Categorical Educational Program - Class Size Reduction | 1,714,646.00 |
| Voluntary Prekindergarten Program | 93,582.47 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 76,644.92 |
| Workforce Development Program | 71,429.00 |
| School Recognition | 63,818.00 |
| Gross Receipts Tax (Public Education Capital Outlay) | 33,307.00 |
| Food Service Supplement | 27,393.32 |
| Mobile Home License Tax | 8,721.45 |
| Discretionary Lottery Funds | 5,727.00 |
| Miscellaneous | 299,865.97 |
| Total | \$ 8,340,258.13 |

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2014 tax roll for the 2014-15 fiscal year:

| | <u>Millages</u> | <u>Taxes Levied</u> |
|---|-----------------|------------------------|
| <u>General Fund</u> | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 4.892 | \$ 3,926,214.00 |
| Basic Discretionary Local Effort | 0.748 | 600,328.00 |
| Critical Operating Needs | 0.250 | 200,644.55 |
| <u>Capital Projects - Local Capital Improvement Fund</u> | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.500 | 1,203,867.20 |
| Total | 7.390 | \$ 5,931,053.75 |

M. Interfund Transfer

The following interfund transfer is reported in the fund financial statements:

| Funds | Interfund | |
|---------------------------|-------------------|-------------------|
| | Transfers In | Transfers Out |
| Major: | | |
| General | \$ 355,000 | \$ - |
| Capital Projects: | | |
| Local Capital Improvement | - | 355,000 |
| Total | \$ 355,000 | \$ 355,000 |

The interfund transfer was to move restricted capital outlay revenues to offset eligible maintenance and property insurance premium expenditures made in the General Fund.

IV. SUBSEQUENT EVENTS

Pursuant to Section 1013.64, Florida Statutes, the District will receive the first of three special allocations of \$2,168,454 in the 2015-16 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility Construction account. The funding will be used for the construction of the new Hamilton Elementary School. The second year’s allocation for the 2016-17 fiscal year is \$10,128,694. As of March 11, 2016, the District has not entered into a contract for construction of the new facility.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule General and Major Special Revenue Funds For the Fiscal Year Ended June 30, 2015

| | General Fund | | | Variance with Final Budget - Positive (Negative) |
|---|--------------------|-----------------|-----------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Direct | \$ 50,000.00 | \$ 56,826.92 | \$ 56,826.92 | \$ - |
| Federal Through State and Local | 150,000.00 | 264,251.62 | 264,251.62 | - |
| State | 7,968,367.00 | 8,204,045.42 | 8,204,045.42 | - |
| Local: | | | | |
| Property Taxes | 4,494,203.00 | 4,556,738.36 | 4,556,738.36 | - |
| Miscellaneous | 185,000.00 | 638,294.86 | 638,294.86 | - |
| Total Local Revenues | 4,679,203.00 | 5,195,033.22 | 5,195,033.22 | - |
| Total Revenues | 12,847,570.00 | 13,720,157.18 | 13,720,157.18 | - |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 6,600,756.02 | 6,919,071.82 | 6,919,071.82 | - |
| Student Personnel Services | 347,288.54 | 441,672.55 | 441,672.55 | - |
| Instructional Media Services | 129,116.52 | 141,718.51 | 141,718.51 | - |
| Instruction and Curriculum Development Services | 362,876.50 | 280,171.15 | 280,171.15 | - |
| Instructional Staff Training Services | 230,539.23 | 422,686.96 | 422,686.96 | - |
| Instructional - Related Technology | 179,814.77 | 311,402.05 | 311,402.05 | - |
| Board | 305,603.48 | 414,043.84 | 414,043.84 | - |
| General Administration | 232,328.93 | 286,243.17 | 286,243.17 | - |
| School Administration | 774,569.15 | 888,148.58 | 888,148.58 | - |
| Facilities Acquisition and Construction | 263,088.00 | - | - | - |
| Fiscal Services | 279,266.51 | 268,547.01 | 268,547.01 | - |
| Central Services | 158,878.47 | 171,460.22 | 171,460.22 | - |
| Student Transportation Services | 1,083,858.49 | 1,363,339.22 | 1,363,339.22 | - |
| Operation of Plant | 1,602,567.85 | 1,639,341.84 | 1,639,341.84 | - |
| Maintenance of Plant | 256,361.16 | 539,474.66 | 539,474.66 | - |
| Administrative Technology Services | 83,475.50 | 153,854.08 | 153,854.08 | - |
| Community Services | 474.50 | 11,576.22 | 11,576.22 | - |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | - | 76,197.38 | 76,197.38 | - |
| Other Capital Outlay | - | 151,730.27 | 151,730.27 | - |
| Debt Service: | | | | |
| Principal | - | 86,036.21 | 86,036.21 | - |
| Total Expenditures | 12,890,863.62 | 14,566,715.74 | 14,566,715.74 | - |
| Deficiency of Revenues Over Expenditures | (43,293.62) | (846,558.56) | (846,558.56) | - |
| Other Financing Sources | | | | |
| Transfers In | 355,000.00 | 355,000.00 | 355,000.00 | - |
| Proceeds of Lease Purchase Agreement | - | 172,078.85 | 172,078.85 | - |
| Loss Recoveries | - | 4,164.37 | 4,164.37 | - |
| Total Other Financing Sources | 355,000.00 | 531,243.22 | 531,243.22 | - |
| Net Change in Fund Balances | 311,706.38 | (315,315.34) | (315,315.34) | - |
| Fund Balances, Beginning | 848,705.47 | 1,654,280.07 | 1,654,280.07 | - |
| Fund Balances, Ending | \$ 1,160,411.85 | \$ 1,338,964.73 | \$ 1,338,964.73 | \$ 0.00 |

| Special Revenue - Other Fund | | | |
|------------------------------|-----------------|--------------|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| \$ - | \$ - | \$ - | \$ - |
| 2,255,547.00 | 2,402,941.63 | 2,402,941.63 | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 2,255,547.00 | 2,402,941.63 | 2,402,941.63 | - |
| 800,084.72 | 925,387.85 | 925,387.85 | - |
| 216,274.00 | 205,770.90 | 205,770.90 | - |
| - | - | - | - |
| 337,251.42 | 342,074.27 | 342,074.27 | - |
| 668,907.55 | 695,140.15 | 695,140.15 | - |
| - | - | - | - |
| - | - | - | - |
| 178,331.31 | 181,922.28 | 181,922.28 | - |
| 5,000.00 | 2,961.96 | 2,961.96 | - |
| - | - | - | - |
| - | - | - | - |
| 25,000.00 | 2,775.66 | 2,775.66 | - |
| 17,018.00 | 11,865.62 | 11,865.62 | - |
| 7,680.00 | 7,360.54 | 7,360.54 | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | 27,682.40 | 27,682.40 | - |
| - | - | - | - |
| 2,255,547.00 | 2,402,941.63 | 2,402,941.63 | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |

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

| Actuarial Valuation Date (2) | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (1) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|------------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 03/01/09 | \$ - | \$ 1,937,109 | \$ 1,937,109 | 0.0% | \$ 6,793,522 | 28.5% |
| 03/01/15 | - | 1,054,161 | 1,054,161 | 0.0% | 10,089,373 | 10.4% |

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

(2) The District did not obtain an actuarial valuation to support the other postemployment benefits liability at June 30, 2012, June 30, 2013, and June 30, 2014.

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

| | 2014 | 2013 |
|---|--------------|--------------|
| District's proportion of the FRS net pension liability | 0.026515981% | 0.027240606% |
| District's proportionate share of the FRS net pension liability | \$ 1,617,865 | \$ 4,689,321 |
| District's covered-employee payroll | \$ 7,951,613 | \$ 9,009,202 |
| District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll | 20.35% | 52.05% |
| FRS Plan fiduciary net position as a percentage of the total pension liability | 96.09% | 88.54% |

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

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

| | 2015 | 2014 |
|--|--------------|--------------|
| Contractually required FRS contribution | \$ 642,824 | \$ 580,812 |
| FRS contributions in relation to the contractually required contribution | 642,824 | 580,812 |
| FRS contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 8,346,604 | \$ 7,951,913 |
| FRS contributions as a percentage of covered-employee payroll | 7.70% | 7.30% |

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

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

| | 2014 | 2013 |
|---|--------------|---------------|
| District's proportion of the HIS net pension liability | 0.031007513% | 0.034803415% |
| District's proportionate share of the HIS net pension liability | \$ 2,899,278 | \$ 3,030,095 |
| District's covered-employee payroll | \$ 9,212,710 | \$ 10,110,731 |
| District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll | 31.47% | 29.97% |
| HIS Plan fiduciary net position as a percentage of the total pension liability | 0.99% | 1.78% |

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

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

| | 2015 | 2014 |
|--|--------------|--------------|
| Contractually required HIS contribution | \$ 123,068 | \$ 106,221 |
| HIS contributions in relation to the contractually required contribution | 123,068 | 106,221 |
| HIS contribution deficiency (excess) | \$ - | \$ - |
| District's covered-employee payroll | \$ 9,772,145 | \$ 9,212,710 |
| HIS contributions as a percentage of covered-employee payroll | 1.26% | 1.15% |

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

| |
|--|
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION |
|--|

1. Budgetary Basis of Accounting

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

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

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

2. Schedule of Funding Progress – Other Postemployment Benefits Plan

The March 1, 2009, unfunded actuarial accrued liability of \$1,937,109 was significantly higher than the March 1, 2015, liability of \$1,054,161 as a result of benefit and other changes as discussed below:

- Termination and retirement assumptions have been updated to those used in the Florida Retirement System Actuarial Valuation as of July 1, 2014.
- The payroll growth rate was reduced from 4 percent to 3 percent and the discount rate was reduced from 4 percent to 3.5 percent.
- The percentage of employees assumed to elect medical coverage upon retirement was reduced from 50 percent to 35 percent based on professional judgement and the level of benefits offered by the plan.

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

Changes of Assumptions. As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Hamilton County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2015

| 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 | 14002 | \$ 504,393.92 |
| National School Lunch Program | 10.555 (2) | 14001, 14003 | 774,797.22 |
| Summer Food Service Program for Children | 10.559 | 14006, 14007 | 40,568.30 |
| Total United States Department of Agriculture | | | 1,319,759.44 |
| United States Department of Education: | | | |
| Direct: | | | |
| Teacher Incentive Fund | 84.374 | N/A | 155,154.41 |
| Indirect: | | | |
| Special Education Cluster: | | | |
| Florida Department of Education: | | | |
| Special Education - Grants to States | 84.027 (3) | 262, 263 | 1,111,449.40 |
| Special Education - Preschool Grants | 84.173 | 266, 267 | 127,544.33 |
| University of South Florida: | | | |
| Special Education - Grants to States | 84.027 (3) | None | 1,500.00 |
| Total Special Education Cluster | | | 1,240,493.73 |
| Florida Department of Education: | | | |
| Adult Education - Basic Grants to States | 84.002 | 191 | 45,893.26 |
| Title I Grants to Local Education Agencies | 84.010 | 212, 226 | 862,701.99 |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 44,101.32 |
| Education for Homeless Children and Youth | 84.196 | 127 | 45,786.65 |
| Rural Education | 84.358 | 110 | 34,511.37 |
| English Language Acquisition Grants | 84.365 | 102 | 14,516.64 |
| Improving Teacher Quality State Grants | 84.367 | 224 | 116,436.67 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top | | | |
| Incentive Grants, Recovery Act | 84.395 | RG311 | 2,927.53 |
| Total United States Department of Education | | | 2,562,523.57 |
| United States Department of Health and Human Services: | | | |
| Indirect: | | | |
| University of South Florida: | | | |
| Temporary Assistance for Need Families | 93.558 | None | 63,497.76 |
| United States Department of Defense: | | | |
| Direct: | | | |
| Army Junior Reserve Officers Training Corps | None | N/A | 56,826.92 |
| Total Expenditures of Federal Awards | | | \$ 4,002,607.69 |

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 \$68,929 of donated food received during the fiscal year. Donated foods are valued at fair value as at the time of donation.

(3) Special Education – Grants to States. Total CFDA No. 84.027 expenditures: \$1,112,949.40.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 11, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, as described in our report on the District's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

District's Response to Findings

District's response to the findings identified in our audit is described in the accompanying **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of the financial statements 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 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 11, 2016



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
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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 THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for the Major Federal Program

We have audited the Hamilton County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the fiscal year ended June 30, 2015. The District's major Federal program is identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major Federal program 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 the 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 the major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the 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 its major Federal program for the fiscal year ended June 30, 2015.

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 its major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 11, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

| | |
|--|--|
| Internal control over major program: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Type of auditor's report issued on compliance for major program: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |
| Identification of major program: | |
| CFDA Numbers: 10.553, 10.555, and 10.559 | Name of Federal Program or Cluster: Child Nutrition Cluster |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | Yes |

ADDITIONAL MATTERS

Finding 1: Compensation and Salary Schedules

State law¹ requires the Board to designate positions to be filled; prescribes qualifications for those positions; and provides for the appointment, compensation, promotion, suspension, and dismissal of employees. State law² also provides that, for instructional personnel and school administrators, the Board must provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties (the four required differentiated pay factors).

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel or school administrators entitled to differentiated pay using the factors prescribed in State law. 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.

For the 2014-15 fiscal year, the instructional personnel salary schedule provided for additional responsibilities differentiated pay, such as for sponsoring classes, directing bands, and coaching athletics, and the school administrator salary schedule indicated that the Superintendent could place an administrator in any level of classification justified. However, contrary to State law, District records did not evidence instructional personnel differentiated pay based on school demographics, critical shortage areas, and level of job performance difficulties or school administrator differentiated pay for any of the four required differentiated pay factors.

In response to our inquiry, District personnel indicated that the salary schedules did not always provide for differentiated pay because they were still in the process of revising their current salary schedules to comply with statutory requirements. However, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay and Board-adopted salary schedules that identify differentiated pay based on the required differentiated pay factors, 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. 2014-135 and 2015-140.

Recommendation: The Board should establish a documented process for identifying the instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in State law and adopt salary schedules that specify the differentiated pay based on the those factors.

Finding 2: 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 and contractors access to IT resources based on a demonstrated need to view, change, or delete data and restrict

¹ Section 1001.42(5)(a), Florida Statutes.

² Section 1012.22(1)(c)4.b., Florida Statutes.

employees and contractors from performing incompatible functions or functions inconsistent with their assigned responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees and contractors can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties. According to District personnel and review of District records, District personnel periodically review access assigned to application security groups and group members.

The District is a participating member of the North East Florida Educational Consortium (NEFEC). In addition to having its own IT employees, the District contracts for 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 the ETS contract database administrator and some District employees had access privileges that permitted them to perform unnecessary or incompatible functions. Specifically, we found that:

- The ETS database administrator had update access privileges to all functions within the District's finance and HR applications that allowed the administrator, for example, to add or change employee data including rates of pay, add vendors, and record general ledger entries. In response to our inquiry, District personnel indicated that it was the ETS database administrator's practice to contact the District before accessing their system. However, 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. Subsequent to our inquiry, in June 2015, District personnel indicated that they removed these access privileges.
- 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 their 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.

District records indicated that the District had certain controls (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) that somewhat compensated for the deficiencies and our review did not disclose any misuse as a result of the unnecessary or inappropriate access privileges. However, the existence of these inappropriate or unnecessary access privileges increased the risk of unauthorized disclosure, modification, or destruction of District data or IT resources and indicated a need for an improved review of access privileges. Similar findings were noted in our report Nos. 2014-135 and 2015-140.

Recommendation: The District should improve the periodic review of access privileges within the finance and HR applications to ensure that inappropriate or unnecessary access privileges detected are promptly removed. Additionally, the District should promptly remove the TIS Coordinator's and the TIS Specialist's unnecessary access privileges.

Finding 3: Information Technology – Security Controls

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 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 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. Similar findings regarding data loss prevention and logging and monitoring were communicated to District management in connection with our report Nos. 2014-135 and 2015-140.

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

Finding 4: Information Technology – Disaster Recovery Plan

The availability and reliability of the District computing infrastructure is critical to successful District operations. Accordingly, it is essential that the District maintain an effective disaster recovery plan to help minimize data and asset loss in the event of a major hardware failure, system failure, or data center outage. A disaster recovery plan should identify critical applications to be restored, identify the backup and storage of critical data files, identify an alternate processing facility that is geographically separated by distance from the primary data center so as not to be susceptible to the same hazards, and provide a step by step plan for recovery, including identification of staff responsible for recovery activities. In addition, the plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The District participated in NEFEC and obtains certain IT services, such as financial, payroll, and other critical applications. NEFEC developed an IT disaster recovery plan whereby member districts agreed to serve as alternate-processing sites for each other in the event of a disaster that interrupts critical IT operations. However, the District had not established a written, comprehensive disaster recovery plan, including assigning responsibilities for recovery activities to key employees and backup personnel, prioritizing critical operations and data, and detailing the specific processes and procedures to be followed when NEFEC is inoperable or other events interrupt District operations to affect the recovery and restoration of financial, payroll, and other critical applications.

District personnel indicated they were developing a plan but had not completed it as of December 2015. Without a detailed plan for the District's disaster recovery and annual testing of the plan, there is an increased risk that the District may be unable to continue critical IT operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations. A similar finding was noted in our report No. 2015-140.

Recommendation: The District should continue efforts to develop a written, comprehensive disaster recovery plan and test the plan periodically.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except as noted in Findings 1, 2, 3, and 4 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

| | 2013-14 Fiscal Year Audit Report No. 2015-140, | 2012-13 Fiscal Year Audit Report No. 2014-135, |
|---------|---|---|
| Finding | Finding | Finding |
| 1 | 1 | 3 |
| 2 | 3 | 6 |
| 3 | 4 | 7 |
| 4 | 5 | Not Applicable |

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

| <u>Audit Report No. and Federal Awards Finding No.</u> | <u>Program/Area</u> | <u>Brief Description</u> | <u>Status</u> | <u>Comments</u> |
|---|----------------------------|---|----------------------|------------------------|
| 2015-140 | | There were no prior Federal audit findings. | | |

MANAGEMENT'S RESPONSE



Hamilton County School District

Business Services Department
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
Cheryl McCall – District 1
Gary Godwin – District 2
Jeanie Daniels – District 3
Johnny Bullard – District 4
Suzette Wiggins – District 5

February 10, 2016

Ms. Sherrill F. Norman, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

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: Compensation and Salary Schedules - The Board, Management and Union representatives continue to address this issue and recognize the need to finalize 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. 2: Information Technology – Access Privileges – The District continues to review and improve District access privileges within the Finance and HR applications. The limited staff at the District relies on the backup support services provided not only by in-house personnel but the ETS staff through NEFEC. We believe access parameters have been reduced significantly to provide increased security to our Finance and HR applications.

Finding No. 3: 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.

Finding No. 4: Information Technology – Disaster Recovery Plan – The District, as a member of the Northeast Florida Education Consortium (NEFEC), is protected under NEFEC's Disaster Recovery Plan for any data residing in Skyward. The District will develop its own written Disaster Recovery Plan in order to demonstrate that we have our own written procedures as an additional level of assurance. Efforts will also be taken to conduct an off-site disaster drill with an adjacent Skyward District to test the ability to run either payroll or accounts payable in the near future.

"Changing Lives Through Quality Education"
www.hamiltonfl.com



Hamilton County School District

Business Services Department
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Thomas P. Moffses, Jr., Superintendent

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Suzette Wiggins – District 5

Audit Response
Page 2
February 10, 2016

The District recognizes the need for the annual audit of our financial, operational and federal programs to determine not only accurate records but compliance with regulatory guidelines. We appreciate the review and identification of areas in need of strengthening or correcting.

Thank you for the professionalism exhibited by the Auditor General staff during this audit. It definitely makes the process effective and positive.

Sincerely,

Thomas P. Moffses, Jr.
Superintendent

Mal

"Changing Lives Through Quality Education"
www.hamiltonfl.com