

GULF COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Robert D. Little, III	1
George M. Cox	2
Linda R. Wood, Vice Chair from 11-22-11	3
Billy C. Quinn, Jr., Vice Chair to 11-21-11, Chair from 11-22-11	4
John W. Wright, Chair to 11-21-11	5
Sara Joe Wooten, Interim Superintendent from 7-1-11 to 8-10-11	
Jim Norton, Superintendent from 8-11-11	

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

The audit team leader was Nicole W. Ostrowski, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**GULF COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

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

Finding No. 2: Improvements were needed in internal controls to strengthen accountability for a la carte food sales.

Finding No. 3: Controls over contractual payment processing needed to be enhanced.

Finding No. 4: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 5: District information technology security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I 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 its major Federal program.

Audit Objectives and Scope

Our audit objectives were to determine whether the Gulf 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. 2012-039.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained

an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 42 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Gulf County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the

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

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

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

Respectfully submitted,



David W. Martin, CPA
November 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 on pages 11 through 39.

FINANCIAL HIGHLIGHTS

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

- The District's net assets decreased by \$432,689.41 (or 3 percent). This change is attributable, in part, to the decrease in fund balance of the governmental funds of \$315,152.26.
- The General Fund (the primary operating fund) in the fund financial statements reflects revenues that exceeded expenditures and other sources and uses by \$404,044.56. This may be compared to last fiscal year's results in which General Fund revenues exceeded expenditures and other sources and uses by \$5,337.55.
- General revenues in the government-wide statements account for \$17,279,589.69 of total revenues. Program specific revenues in the form of charges for services, grants, or contributions account for \$1,020,920.41 of total revenues.
- The District has \$18,733,199.51 in expenses, including \$1,020,920.41 that are offset by program specific charges for services, grants, or contributions. General revenues, primarily from ad valorem taxes and the Florida Education Finance Program, provided resources for the remaining programs.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

In addition to the basic financial statements, required supplementary information includes the MD&A, budgetary comparison schedule, schedule of funding progress – other postemployment benefits plan, and notes to required supplementary information.

Government-wide Financial Statements

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

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

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 its education programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local taxes and the State's education finance program provide most of the resources that support these activities.

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

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, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year.

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Federal Economic Stimulus Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – District Bond 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 Special Revenue – Federal Economic Stimulus Funds to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements

because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses private-purpose trust funds to account for various privately funded scholarship and foundation funds, and uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section is used to present condensed financial information from the government-wide statements that compares the current fiscal year to the prior fiscal year.

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

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 4,051,018.17	\$ 4,380,209.90
Capital Assets	15,500,956.07	15,633,379.51
Total Assets	19,551,974.24	20,013,589.41
Long-Term Liabilities	2,799,212.81	2,814,099.10
Other Liabilities	145,978.30	160,017.77
Total Liabilities	2,945,191.11	2,974,116.87
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	15,030,956.07	15,118,379.51
Restricted	2,195,131.61	2,963,722.36
Unrestricted Deficit	(619,304.55)	(1,042,629.33)
Total Net Assets	\$ 16,606,783.13	\$ 17,039,472.54

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$1,709,908.26 (after exclusion of \$2,329,212.81 in compensated absences and other postemployment benefits) may be used to meet the District's ongoing obligations to students, employees, and creditors.

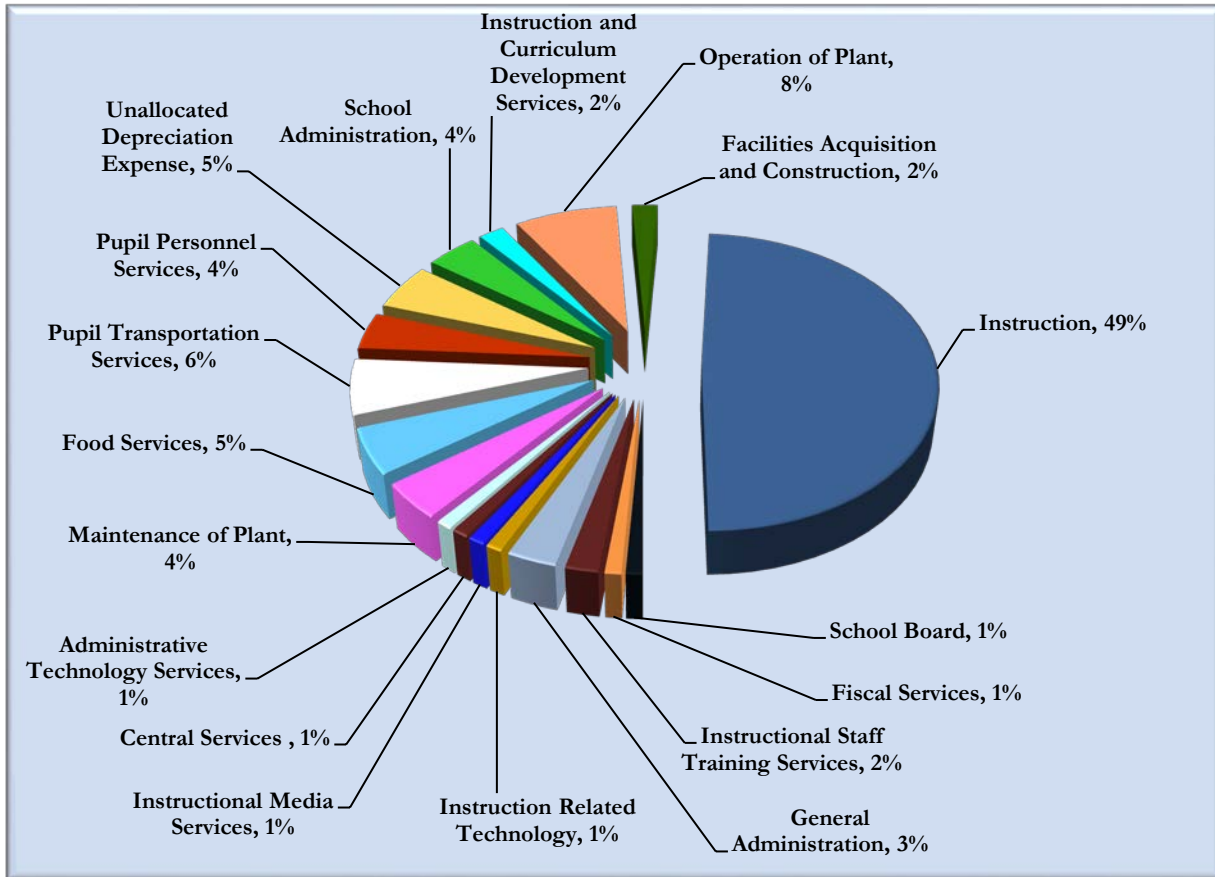
The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
		Governmental Activities	
		6-30-12	6-30-11
Program Revenues:			
Charges for Services	\$	424,675.01	\$ 385,582.41
Operating Grants and Contributions		510,876.16	446,812.17
Capital Grants and Contributions		85,369.24	284,813.85
General Revenues:			
Property Taxes, Levied for Operational Purposes		10,300,453.03	10,903,388.71
Property Taxes, Levied for Capital Projects		604,869.02	555,469.30
Grants and Contributions Not Restricted to Specific Programs		5,671,441.78	7,790,510.92
Unrestricted Investment Earnings		7,348.09	9,105.05
Miscellaneous		695,477.77	278,951.90
Total Revenues		18,300,510.10	20,654,634.31
Functions/Program Expenses:			
Instruction		9,201,081.16	10,782,614.89
Pupil Personnel Services		799,301.85	840,883.31
Instructional Media Services		222,581.74	240,908.55
Instruction and Curriculum Development Services		337,905.98	301,720.32
Instructional Staff Training Services		441,792.49	560,129.49
Instruction Related Technology		97,206.91	132,757.00
School Board		158,200.95	168,567.81
General Administration		585,482.80	680,977.45
School Administration		798,299.39	1,198,578.41
Facilities Acquisition and Construction		307,337.61	462,485.02
Fiscal Services		259,194.23	272,951.81
Food Services		919,017.09	856,562.45
Central Services		86,525.23	183,683.84
Pupil Transportation Services		1,044,476.28	1,019,535.95
Operation of Plant		1,536,387.05	1,658,508.85
Maintenance of Plant		801,195.79	714,815.67
Administrative Technology Services		99,342.96	91,628.84
Unallocated Interest on Long-Term Debt		30,809.13	35,007.46
Unallocated Depreciation Expense		1,007,060.87	917,824.15
Total Functions/Program Expenses		18,733,199.51	21,120,141.27
Decrease in Net Assets	\$	(432,689.41)	\$ (465,506.96)

Revenues from local sources for current operations are primarily received through property taxes. Property taxes levied for operational purposes decreased by \$602,935.68, primarily due to the decrease in local property values experienced within Gulf County. The decrease in grants and contributions not restricted to specific programs is specifically related to the decrease in Federal economic stimulus program funds.

Instruction expenses represent 49 percent of total governmental expenses in the 2011-12 fiscal year. Instruction expenses decreased by \$1,581,533.73, from the previous fiscal year, due mainly to the reduction of Federal economic stimulus program funds.

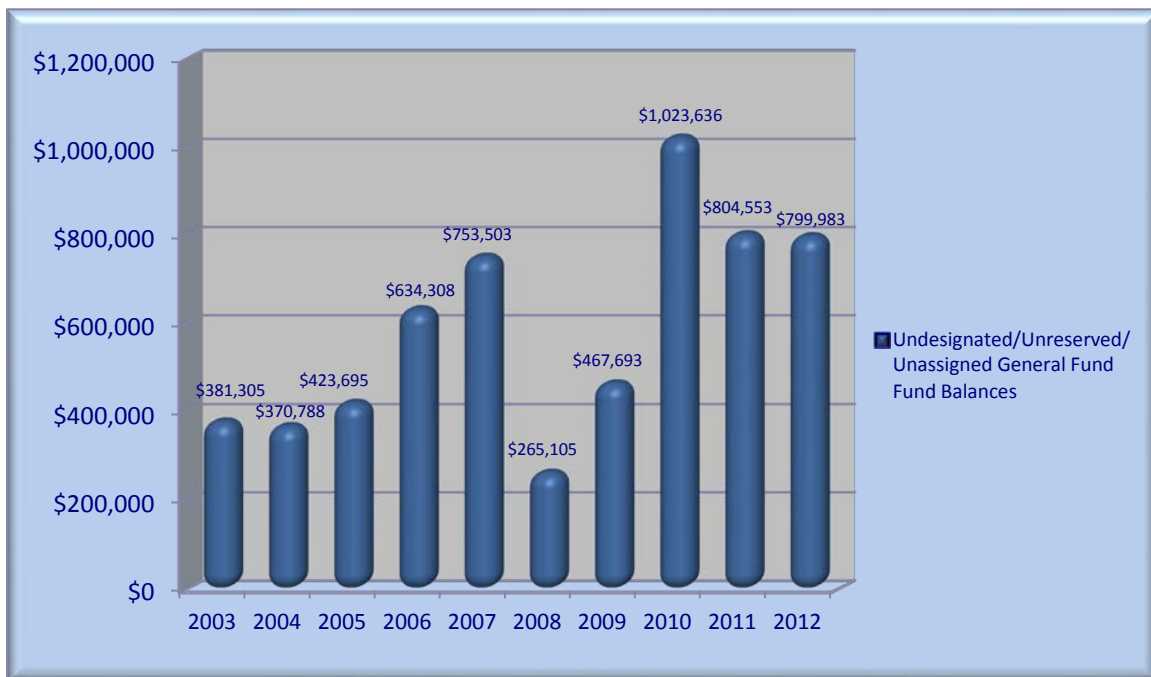
The following graph depicts the distribution of expenses of the District as a whole.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the fund balances of the District's major funds.

- **General Fund.** The Board has established a provision, in its strategic plan, to provide for an undesignated fund balance at fiscal year-end of 5 percent of Florida Education Finance Program funding. During the 2010-11 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, which changed fund balance definitions. Unassigned fund balance, as defined by GASB Statement No. 54, is essentially equivalent to unreserved, undesignated fund balance as defined prior to GASB Statement No. 54. The undesignated, unreserved/unassigned fund balance of the General Fund had steadily increased until the 2007-08 fiscal year. During the 2008-09 and 2009-10 fiscal years, the State made significant cut-backs in the District's appropriations due to the economic condition of the State of Florida. If the 1 mill voted operating school tax is not extended by voters in February 2013, significant cuts to General Fund operating revenues may result. The following graph shows the undesignated, unreserved/unassigned General Fund fund balances from the 2002-03 through 2011-12 fiscal years. The increase from the 2008-09 to 2009-10 fiscal year was due to the District levying a voted school tax for operating purposes of 1 mill, which may end in the 2012-13 fiscal year.



The General Fund total fund balance increased \$404,044.56 to \$1,778,189.90 at June 30, 2012. General Fund revenues totaled \$15,195,664.38, which was a decrease of \$213,706.77 from the prior fiscal year. The decrease in revenue is mainly due to the decrease in local property taxes explained earlier. General Fund expenditures totaled \$15,047,058.29, a decrease of \$728,064.43 from the prior fiscal year. The decrease in expenditures is due to the reduction of salary costs as follows: 1) 4 percent across-the-board salary reduction; 2) new requirement for employees to contribute 3 percent to retirement; 3) consolidation of the two middle and high schools, which eliminated five positions; and 4) elimination of four custodial positions, one at each of the four schools.

- **Special Revenue – Federal Economic Stimulus Fund.** The Special Revenue - Federal Economic Stimulus Fund has total revenue and expenditures of \$105,034.55 each. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.
- **Capital Projects – Public Education Capital Outlay Fund.** The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$1,062,822.70, generated by the State Public Education Capital Outlay and Debt Service Fund, to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment. The fund balance decreased by \$652,692.72 due to the completion of the Wewahitchka Elementary School covered playground and reroofing projects. The total fund balance has been restricted for the Gulf County schools additions and renovations project. It should be noted that \$695,631 of the fund balance has been encumbered for specific projects.
- **Capital Projects – District Bond Fund.** The Capital Projects – District Bond Fund has a total fund balance of \$475,825.26. Revenues in this fund totaled \$975.75 with expenditures totaling \$55,708.07, which resulted in the decrease in fund balance of \$54,732.32. The sales tax that provided revenue for this fund was discontinued during the 2009-10 fiscal year, and the fund balance has continued to decline as prior fiscal year sales tax collections were expended. It should be noted that \$474,869 of the fund balance has been encumbered for specific projects.
- **Capital Projects – Local Capital Improvement Fund.** The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$399,840.13. Revenues in this fund totaled \$605,771.06 with expenditures and transfers out totaling \$647,707.82. The fund balance decreased by \$41,936.76 primarily due to transfers to reimburse the General Fund for eligible equipment expenditures and property insurance premiums. It should be noted that \$399,400 of the fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

All budget variances for the General Fund were considered normal budget fluctuations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

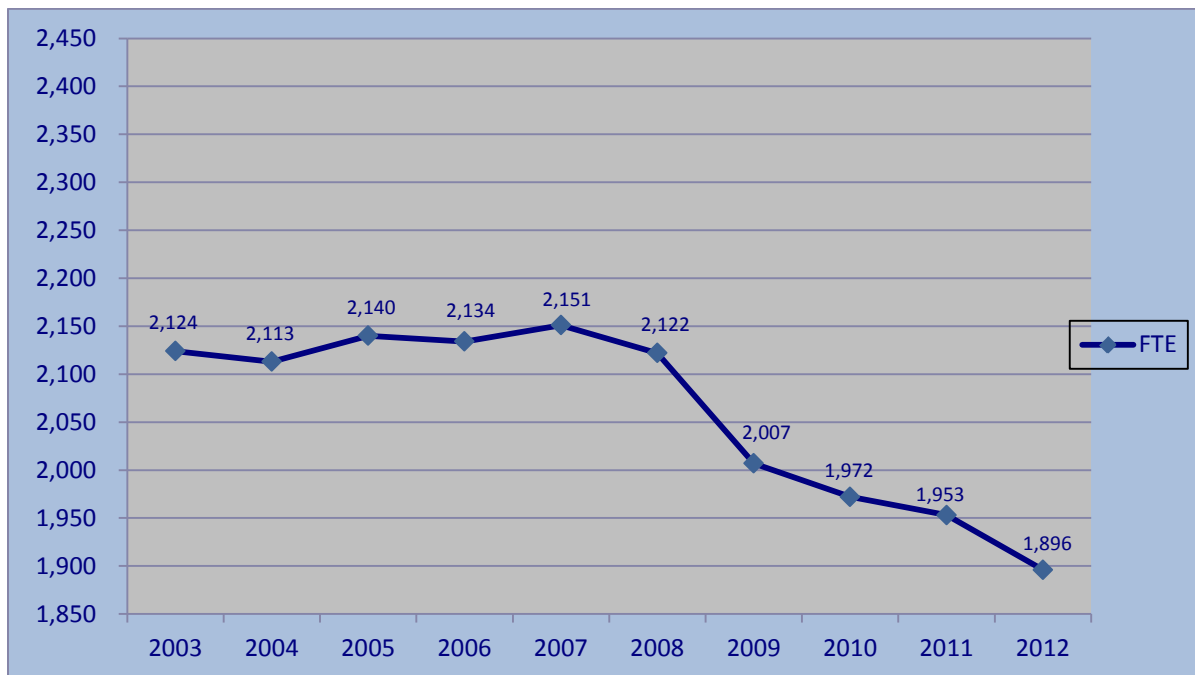
Major capital asset events during the current fiscal year included the completion of the covered playground and reroofing projects at Wewahitchka Elementary School. Additional information on the District's capital assets can be found in notes 4 and 14 to the financial statements.

Long-Term Debt

The District did not issue any new long-term debt during the 2011-12 fiscal year. At this time, there are no plans for issuing any new debt. Additional information on the District's long-term debt can be found in notes 6 and 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. Revenues from State sources comprise a significant source of total available resources of the District. However, unlike most previous fiscal years, revenues from State sources for current operations are not primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. As shown in the following chart, the District continued to experience a decline in FTE during the 2011-12 fiscal year.



REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Gulf County District School Board's finances and to demonstrate compliance and accountability for its resources. Questions concerning information provided in the MD&A, financial statements, and notes thereto, or requests for additional financial information should be addressed to the Director of Finance, Gulf County District School Board, 150 Middle School Road, Port St. Joe, FL 32456.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 3,403,720.15
Investments	25,199.05
Accounts Receivable	656.69
Due from Other Agencies	560,009.71
Inventories	61,432.57
Capital Assets:	
Nondepreciable Capital Assets	325,928.47
Depreciable Capital Assets, Net	<u>15,175,027.60</u>
TOTAL ASSETS	<u>\$ 19,551,974.24</u>
LIABILITIES	
Salaries and Benefits Payable	\$ 79,791.56
Payroll Deductions and Withholdings	64,184.89
Accounts Payable	1.85
Due to Other Agencies	2,000.00
Long-Term Liabilities:	
Portion Due Within One Year	110,009.35
Portion Due After One Year	<u>2,689,203.46</u>
Total Liabilities	<u>2,945,191.11</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	15,030,956.07
Restricted for:	
State Required Carryover Programs	916,535.99
Debt Service	17,640.88
Capital Projects	1,219,341.05
Food Service	41,613.69
Unrestricted	<u>(619,304.55)</u>
Total Net Assets	<u>16,606,783.13</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,551,974.24</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 9,201,081.16	\$ 57,444.50	\$	\$	\$ (9,143,636.66)
Pupil Personnel Services	799,301.85				(799,301.85)
Instructional Media Services	222,581.74				(222,581.74)
Instruction and Curriculum Development Services	337,905.98				(337,905.98)
Instructional Staff Training Services	441,792.49				(441,792.49)
Instruction Related Technology	97,206.91				(97,206.91)
School Board	158,200.95				(158,200.95)
General Administration	585,482.80				(585,482.80)
School Administration	798,299.39				(798,299.39)
Facilities Acquisition and Construction	307,337.61			15,703.66	(291,633.95)
Fiscal Services	259,194.23				(259,194.23)
Food Services	919,017.09	348,629.35	510,876.16		(9,511.58)
Central Services	86,525.23				(86,525.23)
Pupil Transportation Services	1,044,476.28	18,601.16			(1,025,875.12)
Operation of Plant	1,536,387.05				(1,536,387.05)
Maintenance of Plant	801,195.79				(801,195.79)
Administrative Technology Services	99,342.96				(99,342.96)
Unallocated Interest on Long-Term Debt	30,809.13			69,665.58	38,856.45
Unallocated Depreciation Expense*	1,007,060.87				(1,007,060.87)
Total Governmental Activities	\$ 18,733,199.51	\$ 424,675.01	\$ 510,876.16	\$ 85,369.24	(17,712,279.10)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					
					10,300,453.03
Property Taxes, Levied for Capital Projects					
					604,869.02
Grants and Contributions Not Restricted to Specific Programs					
					5,671,441.78
Unrestricted Investment Earnings					
					7,348.09
Miscellaneous					
					695,477.77
Total General Revenues					17,279,589.69
Change in Net Assets					(432,689.41)
Net Assets - Beginning					17,039,472.54
Net Assets - Ending					\$ 16,606,783.13

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

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - District Bond Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 1,782,363.81	\$	\$ 592,624.70	\$ 474,869.12
Investments	5,026.04			956.14
Accounts Receivable	634.58			
Due from Other Agencies	87,664.50		470,198.00	
Inventories	46,477.42			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,922,166.35</u>	<u>\$ 0.00</u>	<u>\$ 1,062,822.70</u>	<u>\$ 475,825.26</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 79,791.56	\$	\$	\$
Payroll Deductions and Withholdings	64,184.89			
Accounts Payable				
Due to Other Agencies				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>143,976.45</u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Nonspendable:				
Inventory	46,477.42			
Fund B Investments	5,026.04			956.14
Total Nonspendable Fund Balance	51,503.46			956.14
Restricted for:				
State Required Carryover Programs	68,281.64		848,254.35	
Debt Service				
Capital Projects			214,568.35	474,869.12
Food Service				
Total Restricted Fund Balance	68,281.64		1,062,822.70	474,869.12
Assigned for Budget Shortfall	858,422.00			
Unassigned Fund Balance	799,982.80			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,778,189.90</u>	<u> </u>	<u>1,062,822.70</u>	<u>475,825.26</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,922,166.35</u>	<u>\$ 0.00</u>	<u>\$ 1,062,822.70</u>	<u>\$ 475,825.26</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 397,298.85	\$ 156,563.67	\$ 3,403,720.15
394.07	18,822.80	25,199.05
	22.11	656.69
2,147.21		560,009.71
	14,955.15	61,432.57
<u>\$ 399,840.13</u>	<u>\$ 190,363.73</u>	<u>\$ 4,051,018.17</u>
\$	\$	\$ 79,791.56
		64,184.89
	1.85	1.85
	2,000.00	2,000.00
	2,001.85	145,978.30
	14,955.15	61,432.57
394.07	1,181.92	7,558.17
394.07	16,137.07	68,990.74
		916,535.99
	17,640.88	17,640.88
399,446.06	129,107.31	1,217,990.84
	25,476.62	25,476.62
399,446.06	172,224.81	2,177,644.33
		858,422.00
		799,982.80
399,840.13	188,361.88	3,905,039.87
<u>\$ 399,840.13</u>	<u>\$ 190,363.73</u>	<u>\$ 4,051,018.17</u>

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

Total Fund Balances - Governmental Funds \$ 3,905,039.87

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 15,500,956.07

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

Bonds Payable	\$ 470,000.00	
Other Postemployment Benefits Payable	1,590,132.81	
Compensated Absences Payable	<u>739,080.00</u>	<u>(2,799,212.81)</u>

Total Net Assets - Governmental Activities \$ 16,606,783.13

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - District Bond Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 57,569.70	\$	\$	\$
Federal Through State and Local State	49,845.57 4,030,127.57	105,034.55		
Local:				
Property Taxes	10,300,453.03			
Charges for Services - Food Service				
Miscellaneous	757,668.51		67.32	975.75
Total Local Revenues	11,058,121.54		67.32	975.75
Total Revenues	15,195,664.38	105,034.55	67.32	975.75
Expenditures				
Current - Education:				
Instruction	8,296,672.36	17,075.37		
Pupil Personnel Services	621,090.27			
Instructional Media Services	221,267.38			
Instruction and Curriculum Development Services	210,075.72	7,259.00		
Instructional Staff Training Services	259,899.62	1,512.00		
Instruction Related Technology	71,226.93	24,600.00		
School Board	158,200.95			
General Administration	546,956.57			
School Administration	794,050.38			
Facilities Acquisition and Construction			81,224.42	20,195.99
Fiscal Services	257,638.83			
Food Services				
Central Services	71,777.66	14,500.00		
Pupil Transportation Services	960,856.37			
Operation of Plant	1,532,845.67			
Maintenance of Plant	798,133.40			
Administrative Technology Services	105,504.30			
Fixed Capital Outlay:				
Facilities Acquisition and Construction			571,535.62	29,674.12
Other Capital Outlay	135,843.33	40,088.18		5,837.96
Debt Service:				
Principal				
Interest and Fiscal Charges	5,018.55			
Total Expenditures	15,047,058.29	105,034.55	652,760.04	55,708.07
Excess (Deficiency) of Revenues Over Expenditures	148,606.09		(652,692.72)	(54,732.32)
Other Financing Sources (Uses)				
Transfers In	311,278.47			
Insurance Loss Recoveries	19,160.00			
Transfers Out	(75,000.00)			
Total Other Financing Sources (Uses)	255,438.47			
Net Change in Fund Balances	404,044.56		(652,692.72)	(54,732.32)
Fund Balances, Beginning	1,374,145.34		1,715,515.42	530,557.58
Fund Balances, Ending	\$ 1,778,189.90	\$ 0.00	\$ 1,062,822.70	\$ 475,825.26

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	57,569.70	2,083,409.46
	1,928,529.34	4,122,976.81
	92,849.24	
604,869.02		10,905,322.05
	348,629.35	348,629.35
902.04	3,829.11	763,442.73
<u>605,771.06</u>	<u>352,458.46</u>	<u>12,017,394.13</u>
<u>605,771.06</u>	<u>2,373,837.04</u>	<u>18,281,350.10</u>
	861,982.02	9,175,729.75
	174,740.24	795,830.51
		221,267.38
	132,831.46	350,166.18
	178,819.71	440,231.33
	931.25	96,758.18
		158,200.95
	36,562.01	583,518.58
		794,050.38
205,917.20		307,337.61
		257,638.83
	919,017.09	919,017.09
		86,277.66
	20,346.44	981,202.81
	1,529.31	1,534,374.98
		798,133.40
		105,504.30
80,531.13		681,740.87
49,981.02	21,121.95	252,872.44
	45,000.00	45,000.00
	<u>25,790.58</u>	<u>30,809.13</u>
<u>336,429.35</u>	<u>2,418,672.06</u>	<u>18,615,662.36</u>
<u>269,341.71</u>	<u>(44,835.02)</u>	<u>(334,312.26)</u>
	75,000.00	386,278.47
(311,278.47)		19,160.00
		<u>(386,278.47)</u>
<u>(311,278.47)</u>	<u>75,000.00</u>	<u>19,160.00</u>
(41,936.76)	30,164.98	(315,152.26)
<u>441,776.89</u>	<u>158,196.90</u>	<u>4,220,192.13</u>
<u>\$ 399,840.13</u>	<u>\$ 188,361.88</u>	<u>\$ 3,905,039.87</u>

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

Net Change in Fund Balances - Governmental Funds \$ (315,152.26)

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. (132,423.44)

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

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 95,616.29

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (125,730.00)

Change in Net Assets - Governmental Activities \$ (432,689.41)

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2012**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 84,962.90	\$ 200,889.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable		\$ 200,889.00
		<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	84,962.90	
	<u> </u>	
TOTAL LIABILITIES AND NET ASSETS	\$ 84,962.90	
	<u> </u>	

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Contributions:	
Gifts	\$ 6,100.00
Investment Earnings:	
Interest	<u> 512.35</u>
Total Additions	<u> 6,612.35</u>
DEDUCTIONS	
Other Expenses	<u> 4,000.00</u>
Change in Net Assets	2,612.35
Net Assets - Beginning	<u> 82,350.55</u>
Net Assets - Ending	<u><u> \$ 84,962.90</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Gulf 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 Gulf County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Gulf County.

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

Basis of Presentation:

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

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

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.
- Capital Projects - District Bond Fund – to account for the financial resources generated by the former local sales tax to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.
- 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, and equipment.

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the George G. Tapper Scholarship Fund, Herman R. Dean Scholarship Fund, Marilyn Witten Scholarship Fund, James Lamar Faison Scholarship Fund, Marion “Coach” Craig Memorial Scholarship Fund, and the Paul and Marlene Sewell Scholarship Fund.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized

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

when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, District policy is to restrict certain fund balances that are constrained by constitutional provisions or enabling legislation and to use those funds only for the purpose for which they are intended. When expenditures are incurred for which unrestricted resources can be used, it is the District's intention to use committed resources first, followed by assigned resources, and then unassigned resources.

Restricted Net Assets. In the accompanying statement of net assets, restricted net assets are subject to restrictions beyond the District's control. The restriction is either externally imposed (e.g., by creditors, grantors, laws or regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation. It is the practice of the District to utilize restricted assets before unrestricted assets.

Deposits and Investments. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include certificates of deposit and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

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

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

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

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

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost based on the last invoice, which approximates the first-in, first-out

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

basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. 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. Land and some buildings acquired or constructed prior to July 1, 1984, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, all of the stated land values and \$1,584,793 of stated building values are based on these estimates.

Buildings and fixed equipment are depreciated using the straight-line method; with all other assets being depreciated using the composite method, over the following estimated useful lives:

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

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

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

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

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports

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

the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

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

The Board adopted the 2011 tax levy on September 13, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Gulf County Tax Collector at fiscal year-end but not yet remitted to the District.

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

Federal Revenue Sources. The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various

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

granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	38 Day Average	\$ 2,539,885.77
Fund B	5.73 Year Average	7,558.17
Debt Service Accounts	6 Months	17,640.88
Certificates of Deposit (1)	May 2013 - June 2013	83,310.91
Total Investments, Reporting Entity		<u>\$ 2,648,395.73</u>

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

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

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

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

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

The District's investments in certificates of deposit are in qualified public depositories.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 93,006.47	\$	\$	\$ 93,006.47
Land Improvements	124,222.00			124,222.00
Construction in Progress	149,200.02	108,700.00	149,200.02	108,700.00
Total Capital Assets Not Being Depreciated	366,428.49	108,700.00	149,200.02	325,928.47
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,073,979.37	97,705.25		1,171,684.62
Buildings and Fixed Equipment	20,516,313.14	646,816.41		21,163,129.55
Furniture, Fixtures, and Equipment	4,190,712.29	189,759.32	364,455.50	4,016,016.11
Motor Vehicles	2,074,826.26	32,463.95		2,107,290.21
Audio Visual Materials and Computer Software	481,288.75	8,368.40	39,917.75	449,739.40
Total Capital Assets Being Depreciated	28,337,119.81	975,113.33	404,373.25	28,907,859.89
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	485,313.66	25,312.63		510,626.29
Buildings and Fixed Equipment	9,454,630.14	635,110.37		10,089,740.51
Furniture, Fixtures, and Equipment	1,051,614.76	339,336.44	364,455.50	1,026,495.70
Motor Vehicles	1,633,828.64	59,975.88		1,693,804.52
Audio Visual Materials and Computer Software	444,781.59	7,301.43	39,917.75	412,165.27
Total Accumulated Depreciation	13,070,168.79	1,067,036.75	404,373.25	13,732,832.29
Total Capital Assets Being Depreciated, Net	15,266,951.02	(91,923.42)		15,175,027.60
Governmental Activities Capital Assets, Net	<u>\$ 15,633,379.51</u>	<u>\$ 16,776.58</u>	<u>\$ 149,200.02</u>	<u>\$ 15,500,956.07</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 59,975.88
Unallocated	1,007,060.87
Total Depreciation Expense - Governmental Activities	<u>\$ 1,067,036.75</u>

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

5. CHANGES IN SHORT-TERM DEBT

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 1,000,000	\$ 1,000,000	\$ 0

Proceeds from the tax anticipation note were used as working capital reserves in the General Fund as permitted under State and Federal tax laws.

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
State School Bonds: Series 2005B, Refunding	\$ 470,000	5.0	2020

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 73,500	\$ 50,000	\$ 23,500
2014	71,000	50,000	21,000
2015	73,500	55,000	18,500
2016	70,750	55,000	15,750
2017	73,000	60,000	13,000
2018-2020	220,250	200,000	20,250
Total State School Bonds	\$ 582,000	\$ 470,000	\$ 112,000

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

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 515,000.00	\$	\$ 45,000.00	\$ 470,000.00	\$ 50,000.00
Compensated Absences Payable	1,685,749.10	547,450.61	643,066.90	1,590,132.81	60,009.35
Other Postemployment Benefits Payable	613,350.00	231,023.00	105,293.00	739,080.00	
Total Governmental Activities	<u>\$ 2,814,099.10</u>	<u>\$ 778,473.61</u>	<u>\$ 793,359.90</u>	<u>\$ 2,799,212.81</u>	<u>\$ 110,009.35</u>

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

8. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$311,278.47	\$ 75,000.00
Capital Projects:		
Local Capital Improvement		311,278.47
Nonmajor Governmental	<u>75,000.00</u>	
Total	<u>\$386,278.47</u>	<u>\$386,278.47</u>

Transfers to the General Fund were to purchase school equipment and to pay for property casualty insurance. Transfers to the nonmajor governmental funds were provided to supplement food service operations.

9. FUND BALANCE REPORTING

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

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of

**GULF COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

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

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories. The Board authorized the Director of Finance to assign fund balance by approval of the annual financial report. The District assigned \$858,422 in the General Fund for potential future budget shortfalls.

➤ **Unassigned**

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Categorical Educational Program - Class Size Reduction	\$ 1,992,886.00
Florida Education Finance Program	1,356,425.00
Workforce Development Program	143,342.00
Voluntary Prekindergarten Program	105,558.66
School Recognition Program	75,797.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	69,665.58
Adults with Disabilities	47,500.00
Food Service Supplement	7,480.00
Miscellaneous	<u>324,322.57</u>
Total	<u>\$ 4,122,976.81</u>

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

**GULF COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

11. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.105	\$ 7,736,019
Basic Discretionary Local Effort	0.748	1,133,505
Voted School Tax:		
Additional Operating	1.000	1,515,381
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.400	606,152
Total	<u>7.253</u>	<u>\$ 10,991,057</u>

12. FLORIDA RETIREMENT SYSTEM

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

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to

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

participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal year ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,100,876.82, \$1,137,775.70, and \$692,668.95, respectively, which were equal to the required contributions for each fiscal year.

There were 29 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$84,250.89, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 105 retirees received other postemployment benefits. The District provided required contributions of \$105,293 toward the annual OPEB cost, net of retiree contributions totaling \$182,242, which represents 2.3 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 20 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:

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 100,945
Amortization of Unfunded Actuarial Accrued Liability	<u>139,512</u>
Annual Required Contribution	240,457
Interest on Net OPEB Obligation	21,467
Adjustment to Annual Required Contribution	<u>(30,901)</u>
Annual OPEB Cost (Expense)	231,023
Contribution Toward the OPEB Cost	<u>(105,293)</u>
Increase in Net OPEB Obligation	125,730
Net OPEB Obligation, Beginning of Year	<u>613,350</u>
Net OPEB Obligation, End of Year	<u><u>\$ 739,080</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 424,490	41.68%	\$ 493,258
2010-11	222,993	46.15%	613,350
2011-12	231,023	45.58%	739,080

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$2,761,798, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,761,798 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$7,994,744, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 34.55 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.

**GULF COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 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 rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent for the 2010 calendar year, reduced to an ultimate rate of 5 percent after seven years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 18 years.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Encumbrances. Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executor contract is expected in the next year) are reappropriated and become part of the subsequent year's budget pursuant to State regulations.

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

Major Funds			
Capital Projects - Public Education Capital Outlay	Capital Projects - District Bond	Capital Projects - Local Capital Improvement	Total Governmental Funds
<u>\$ 695,631</u>	<u>\$ 474,869</u>	<u>\$ 399,400</u>	<u>\$ 1,569,900</u>

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JUNE 30, 2012**

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

Project	Contract Amount	Completed to Date	Balance Committed
<hr/>			
Gulf County Schools Additions and Renovations:			
Architect	\$ 131,600	\$ 98,700	\$ 32,900
Contractor	1,537,000		1,537,000
	<hr/>		
Total	<u>\$1,668,600</u>	<u>\$ 98,700</u>	<u>\$1,569,900</u>

15. RISK MANAGEMENT PROGRAMS

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

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 50,000.00	\$ 50,000.00	\$ 57,569.70	\$ 7,569.70
Federal Through State and Local	32,288.44	47,288.44	49,845.57	2,557.13
State	4,072,276.00	4,012,318.42	4,030,127.57	17,809.15
Local:				
Property Taxes	9,990,195.00	9,990,195.00	10,300,453.03	310,258.03
Miscellaneous	263,000.00	425,757.24	757,668.51	331,911.27
Total Local Revenues	10,253,195.00	10,415,952.24	11,058,121.54	642,169.30
Total Revenues	14,407,759.44	14,525,559.10	15,195,664.38	670,105.28
Expenditures				
Current - Education:				
Instruction	8,622,169.28	8,521,478.53	8,296,672.36	224,806.17
Pupil Personnel Services	634,829.00	632,180.00	621,090.27	11,089.73
Instructional Media Services	227,059.78	227,255.78	221,267.38	5,988.40
Instruction and Curriculum Development Services	225,105.00	215,454.00	210,075.72	5,378.28
Instructional Staff Training Services	293,421.00	273,833.00	259,899.62	13,933.38
Instruction Related Technology	71,793.00	72,162.42	71,226.93	935.49
School Board	161,698.00	161,598.00	158,200.95	3,397.05
General Administration	591,970.88	548,843.88	546,956.57	1,887.31
School Administration	796,641.00	801,657.00	794,050.38	7,606.62
Fiscal Services	259,502.00	258,602.00	257,638.83	963.17
Central Services	75,025.00	72,025.00	71,777.66	247.34
Pupil Transportation Services	905,177.00	983,549.80	960,856.37	22,693.43
Operation of Plant	1,596,787.00	1,571,783.45	1,532,845.67	38,937.78
Maintenance of Plant	746,725.00	828,039.86	798,133.40	29,906.46
Administrative Technology Services	85,739.00	106,277.00	105,504.30	772.70
Fixed Capital Outlay:				
Other Capital Outlay		135,843.33	135,843.33	
Debt Service:				
Interest and Fiscal Charges	10,000.00	5,018.55	5,018.55	
Total Expenditures	15,303,641.94	15,415,601.60	15,047,058.29	368,543.31
Excess (Deficiency) of Revenues Over Expenditures	(895,882.50)	(890,042.50)	148,606.09	1,038,648.59
Other Financing Sources (Uses)				
Transfers In	353,597.88	353,597.88	311,278.47	(42,319.41)
Insurance Loss Recoveries		19,160.00	19,160.00	
Transfers Out	(50,000.00)	(75,000.00)	(75,000.00)	
Total Other Financing Sources	303,597.88	297,757.88	255,438.47	(42,319.41)
Net Change in Fund Balances	(592,284.62)	(592,284.62)	404,044.56	996,329.18
Fund Balances, Beginning	1,374,145.34	1,374,145.34	1,374,145.34	
Fund Balances, Ending	\$ 781,860.72	\$ 781,860.72	\$ 1,778,189.90	\$ 996,329.18

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 74,823.37	\$ 158,922.04	\$ 105,034.55	\$ (53,887.49)
<u>74,823.37</u>	<u>158,922.04</u>	<u>105,034.55</u>	<u>(53,887.49)</u>
28,464.37	17,075.37	17,075.37	
7,259.00	27,259.00	7,259.00	20,000.00
	22,112.00	1,512.00	20,600.00
24,600.00	37,887.49	24,600.00	13,287.49
14,500.00	14,500.00	14,500.00	
	40,088.18	40,088.18	
<u>74,823.37</u>	<u>158,922.04</u>	<u>105,034.55</u>	<u>53,887.49</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 5,640,386	\$ 5,640,386	0%	\$ 8,958,328	62.96%
October 1, 2010	0	2,761,798	2,761,798	0%	7,994,744	34.55%

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

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$2,761,798 was significantly lower than the October 1, 2007, liability of \$5,640,386 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of enrolled retirees was expected to increase slightly; however, enrolled retirees decreased from 38 in the October 1, 2007, valuation to 22 in the October 1, 2010, valuation. Similarly, the number of active employees eligible for future postemployment benefits decreased from 246 to 227 in the October 1, 2010, valuation. These changes decreased the cost and liability in the October 1, 2010, valuation.
- The total cost of coverage increased from \$479 per employee per month (as expected for the OPEB Plan year ending September 30, 2008) to \$720 per employee per month for the 2009-2010 fiscal year. This change slightly increased the cost and liability in the October 1, 2010, valuation.
- Retiree medical coverage acceptance and continuation assumptions were revised. In the October 1, 2007, valuation the assumption was that 40 percent of retiring employees under the age of 65 would elect to continue medical coverage through the District's plan. Historical data collected for the October 1, 2010, valuation suggests that fewer retirees have been making that choice in recent years and, consequently, the assumption changed to 25 percent of employees electing to keep the coverage upon retirement. This is consistent with a significant increase in premiums and contributions. This change significantly decreased the cost and liability in the October 1, 2010, valuation. Similarly, a revision to the lapsing rate of retirees attaining age 65 to 75 percent, compared to 60 percent used in the October 1, 2007, valuation was made. This change also significantly decreased the cost and liability in the October 1, 2010, valuation.
- The assumed annual healthcare cost trend for medical and prescription costs was revised for cost increases. In the October 1, 2007, valuation, it was assumed the initial trends for costs and premiums would be 30 percent for the first year, followed by 9 percent for the year beginning January 1, 2009, and further followed by an 8.5 percent increase for the year beginning January 1, 2010, with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. Revisions were made to trend rates for costs and premiums charged to retirees for the year beginning January 1, 2011, to be the same as for the 2010 calendar year (to reflect no actual premium changes). A similar pattern was then followed: 8.5 percent for costs and premiums for the year beginning January 1, 2012, decreasing by 0.5 percent each subsequent year until reaching the ultimate value of 5 percent, modestly decreasing the costs and liability in the October 1, 2010, valuation.
- The amortization period was revised for the unfunded actuarial accrued liability from 28 years to 20 years. As discussed above, new assumptions were made that many retirees age 65 and older will discontinue coverage under the OPEB Plan, shortening the period of benefit. Consequently, the amortization period was adjusted to recognize all accrued benefits before they are paid out. This change has no impact on the unfunded actuarial accrued liability, but increases the annual OPEB cost in the October 1, 2010, valuation.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 39,017.16
National School Lunch Program	10.555	300, 350	153,903.47
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	60,939.75
National School Lunch Program	10.555 (2)	300, 350	246,034.78
Total Child Nutrition Cluster			499,895.16
Total United States Department of Agriculture			499,895.16
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	429,119.56
Special Education - Preschool Grants	84.173	267	24,457.25
Washington County District School Board:			
Special Education - Grants to States	84.027	None	694.05
Total Special Education Cluster			454,270.86
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	100,338.28
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	580,383.08
Career and Technical Education - Basic Grants to States	84.048	161	60,158.94
Twenty-First Century Community Learning Centers	84.287	244	81,144.58
Rural Education	84.358	110	49,957.26
Improving Teacher Quality State Grants	84.367	224	103,075.23
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211	99,423.55
Education Jobs Fund	84.410	541	5,611.00
Norris D. Langston Youth Scholarship Foundation:			
Twenty-First Century Community Learning Centers	84.287	None	7,288.44
Total United States Department of Education			1,541,651.22
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	57,569.70
Total Expenditures of Federal Awards			\$ 2,099,116.08

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 \$26,826.16 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Gulf County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

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

Compliance and Other Matters

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

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

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

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA

November 27, 2012



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

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

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

In our opinion, the District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct

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

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.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
November 27, 2012

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for major program
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:	Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

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

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

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities, band and choral directors, peer teachers, and supervising student clubs. However, neither the salary schedule nor the union contract evidenced differentiated pay based on school demographics, level of job performance difficulties, and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that salary schedule revisions to comply with the statutory differentiated pay requirements were delayed pending completion of the teachers' union negotiations for the 2012-13 fiscal year. Without Board-adopted policies and procedures for identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors were consistently considered and applied. Similar findings were noted in our report Nos. 2011-067 and 2012-039.

Recommendation: The District should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Food Service Sales

For the 2011-12 fiscal year, the District reported local food service revenues totaling \$352,000, of which \$55,000 was for a la carte sales. We noted that controls over a la carte sales needed improvement. At Port St. Joe High School, two lunchroom cashiers used the same cash box to collect moneys from a la carte sales of items such as chips, snack cakes, bottled water, and frozen fruit drinks, and procedures such as inventory controls or the use of receipting devices were not in place to evidence the reasonableness of recorded sales. District personnel estimated that the lunchroom cashiers collected \$7,000 or 10 percent of the food service sales at the school using the cash box. Allowing two cashiers to use the same cash box limits the District's ability to establish responsibility for these collections and the lack of inventory controls or receipting devices increases the risk of errors or fraud without timely detection. Subsequent to our inquiry in August 2012, the District limited a la carte sales collections to one employee and implemented inventory controls over a la carte sales items to evidence the reasonableness of these sales.

Recommendation: The District should continue its efforts to enhance controls over collections from food service a la carte sales.

Finding No. 3: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine the propriety of payments for contractual services, we tested 13 payments totaling \$274,000 for six contracts and noted controls over contracts could be enhanced, as follows:

- Pursuant to a Board-approved contract dated July 2011, a firm was responsible for providing physical, occupational, and speech therapy services at various schools from August 2011 to August 2012 at hourly service and daily travel reimbursement rates of \$71 per hour and \$71 per day, respectively. The contract required the firm to provide therapy services and perform certain administrative duties, such as preparation of monthly student treatment records, nine-week progress reports, and Medicaid billings. The District paid \$140,400 to the firm during the 2011-12 fiscal year, and District personnel maintained sign-in, sign-out time records of therapy services performed on campus.

Our tests of the September 2011 and May 2012 payments totaling \$33,778.25 for therapy services disclosed that District records did not fully support the costs of these services, as follows:

- For September 2011, the District was charged and paid \$11,129.25 for 156.75 hours of therapy services; however, this payment was \$2,699.42 more than the calculated cost of \$8,429.83 based on 118.73 hours of therapy services documented in District time records.
- For May 2012, the District was charged and paid \$22,649 for 319 hours of therapy services; however, this payment was \$4,962.90 more than the calculated costs of \$17,686.10 based on 249.10 hours of therapy services documented in District time records.

District personnel indicated that the additional hours charged for September 2011 and May 2012 may have been for the therapists' administrative duties performed off campus; however, District records did not evidence any efforts to confirm receipt of these services or investigate the differences between the therapy service hours charged and District time records.

For the contract term, District personnel indicated that review of student treatment records and other correspondence, along with attendance at meetings, assured the District appropriate receipt of the therapy services. While these procedures provide District personnel some assurance that therapy services were received, District records did not evidence any efforts to justify the reasonableness of therapy service hours

charged and related payments. For therapy service hours charged, personnel could document the reasonableness of these service hours based on comparisons of similar services at the District or comparably-sized districts, consideration of students served and related needs, and other factors. Without records to confirm receipt of the therapy services and documented evaluations of the reasonableness of the therapy service hours, there is an increased risk of overpayments for these services.

- Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract dated June 2011, the Sheriff was responsible for providing a school resource officer (SRO) at each of the two high schools for quarterly installments of \$28,750 (totaling \$115,000 for the 2011-12 fiscal year). The contract provided that each SRO would be assigned on a full-time basis of eight hours per school day and additional duties as needed for extracurricular events, such as athletic activities. The Sheriff billed the District for each quarter; however, our review disclosed that the District prepaid for the next quarter's services upon receipt of each bill, instead of making payments after satisfactory completion of the services.

District personnel indicated that SRO sign-in, sign-out time records were not maintained because SRO services were not always within the standard school day. Also, SRO reports presented monthly to the Board documented certain SRO services such as the number of students counseled and student-teacher conferences to evidence satisfactory completion of the services. However, our review of five reports disclosed that neither school-level personnel nor other District personnel signed the reports to confirm receipt of the services. Also, of the five reports reviewed, three reports did not document the SRO hours worked and overtime hours. Without records to confirm receipt of SRO services, there is an increased risk of overpayments for these services.

- Pursuant to a Board-approved contract dated August 2011, the Gulf County Health Department (Health Department) was responsible for providing a full-time health support aide at each school for quarterly installments of \$15,000 (totaling \$60,000 for the 2011-12 fiscal year). Although the contract required that the Health Department provide monthly activity reports to evidence the services provided, the Health Department only provided annual activity reports to the Board. Also, the contract did not delineate how the aides would satisfy the contract's full-time requirement and District records did not evidence the time spent by the aides at the schools. In addition, for three of the four quarterly bills, the District prepaid for the next quarter's services upon receipt of the bill, instead of making payments after satisfactory completion of the services. District personnel indicated that the District did not maintain time records for the aides because the health services were used by many school employees and students and, if the aides were absent, the District office would be notified immediately by school office personnel. While District records did not evidence any instances that school office personnel notified the District office of the aides' absences, without records to confirm receipt of the health services, there is an increased risk of overpayments for these services.

Without effective procedures to reconcile payments to contract terms and conditions, document and justify the reasonableness of labor hours charged for contracted services, and confirm that services are received prior to payment, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its monitoring procedures to ensure compliance with contract terms and conditions, document and justify the reasonableness of labor hours charged, and confirm that services are appropriately received prior to payment. In addition, the District should seek recovery of any overpayments, as appropriate.

Finding No. 4: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.

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

For the 2011-12 fiscal year, the District reported to the FDOE 46,506 adult general education instructional contact hours for 91 students. To determine whether the hours were properly reported, we tested 12,463 hours reported for 23 students enrolled in 110 classes. Our tests disclosed that the District misreported hours for 10 of the students tested in 26 classes, resulting in 292 hours overreported, as follows:

- For three students enrolled in eight classes, District personnel were unable to locate attendance records to support the hours reported, resulting in 106 hours overreported.
- For two students enrolled in seven classes, contact hours were overreported by 33 hours. District personnel indicated that data entry errors, such as inputting incorrect student enrollment and exit dates, caused the overreported hours.
- For five students who were procedurally withdrawn due to excessive absences from 11 classes, District personnel did not appropriately identify the day after the last date attended as the withdrawal date, resulting in 153 overreported hours.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that such data be submitted correctly. Similar findings were noted in our report Nos. 2011-067 and 2012-039.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education classes to the FDOE. Further, the District should determine the extent of adult general education hours overreported and contact the FDOE for proper resolution.

Finding No. 5: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain District security controls related to data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-039.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB Circular A-133, Section 510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-039. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Report and Finding Numbers
1	Audit Report No. 2012-039, Finding No. 2	Audit Report No. 2011-067, Finding No. 2
4	Audit Report No. 2012-039, Finding No. 3	Audit Report 2011-067, Finding No. 4
5	Audit Report No. 2012-039, Finding No. 6	NA

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2012-039		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



JIM NORTON, SUPERINTENDENT

150 MIDDLE SCHOOL ROAD • PORT ST. JOE, FLORIDA 32456 • PHONE: (850) 229-8256 or (850) 639-2871 • FAX (850) 229-6089

November 27, 2012

Mr. David W. Martin, CPA
Auditor General for the State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Please find below responses to the Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2012, for the Gulf County District School Board.

Finding #1

Response: The School Board is negotiating a differentiated pay plan for the District and compensation will be based on performance consistent with Florida Statute requirements.

Finding #2

Response: The District has implemented procedures to enhance controls over collections from food service a la carte sales.

Finding #3

Response: Steps are being taken to ensure the District uses sound financial practices relating to contractual arrangements.

Tomorrow's Future Begins In Today's Classrooms

DANNY LITTLE
DISTRICT 1

GEORGE M. COX
DISTRICT 2

LINDA ROBERTS WOOD
DISTRICT 3

BILLY C. QUINN, JR.
DISTRICT 4

JOHN W. WRIGHT
DISTRICT 5

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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Finding #4

Response: Steps are being taken to ensure the District is in full compliance with Florida Statutes and we have contacted DOE for additional assistance in determining the extent and proper resolution of the adult education hours overreported.

Finding #5

Response: A written data loss prevention plan is being developed.

Please contact my office if I may provide further information or assistance.

Most Sincerely,


Jim Norton
Superintendent

pcs: School Board Members
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gregcenters@aud.state.fl.us