

**CITRUS COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2014



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	<u>District No.</u>
Thomas Kennedy, Chair from 11-12-13	1
Virginia Bryant, Chair to 11-11-13	2
Patricia Deutschman, Vice Chair	3
Sandy Balfour from 7-30-13 (1)	4
Linda B. Powers	5

Sandra C. Himmel, Superintendent

Note: (1) This position was vacant from 7-1-13 until 7-29-13.

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 Brian R. Werthmiller, CPA, and the audit was supervised by Eric Davis, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

CITRUS COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY (COMBINATION OF CONTROL DEFICIENCIES IN FINANCIAL STATEMENT FINDING NOS. 1, 2, AND 3)

Finding No. 1: Improvements were needed in the bank reconciliation process.

Finding No. 2: Controls over journal entries needed enhancement.

Finding No. 3: Financial monitoring procedures could be improved by providing monthly financial reports to the Board.

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. 4: The District did not always timely perform background screenings for instructional and noninstructional employees.

Finding No. 5: Procedural enhancements were needed to ensure documented supervisory review and approval of time worked.

Finding No. 6: The District needed to enhance its procedures to require verification of eligibility of dependents participating in the District's health insurance plan.

Finding No. 7: The Board had not adopted a plan for the use of unspent workforce education program funds accumulated over several years.

Finding No. 8: District records could be enhanced to provide a basis for fund balance classifications of workforce education program funds unspent at fiscal year-end and to demonstrate compliance with legal restrictions relating to the use of such funds.

Finding No. 9: District records did not evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in \$64,467 of questioned costs.

Finding No. 10: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 11: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 12: Some inappropriate and unnecessary information technology (IT) access privileges existed.

Finding No. 13: District IT security controls related to application and network security 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 Citrus County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2014-137.

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, 2014. 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.



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Citrus County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds and the Citrus High School private purpose trust fund, which represent 23 percent of the assets and 39 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the Academy of Environmental Science, Inc. (Charter School), the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds, Citrus High School private purpose trust fund, and the discretely presented component unit, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller

General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Citrus County District School Board as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note II to the basic financial statements, the District adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 20, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Citrus County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to a) assist the reader in focusing on significant financial issues, b) provide an overview and analysis of the District's financial activities, c) identify changes in the District's financial position, d) identify material deviations from the approved budget, and e) highlight significant issues in individual funds. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-14 fiscal year are as follows:

- The District's total net position decreased \$4,824,120.97, after a reduction to beginning net position of \$389,283.66, which is a 2.6 percent decrease from the 2012-13 fiscal year. The decrease is due mainly to the elimination of the Critical Capital Outlay Needs property tax millage and an increase in the accrued expense for postemployment benefits of \$2,256,807.
- General revenues total \$130,858,232.30, which is 93.2 percent of all revenues for the 2013-14 fiscal year, as compared to \$128,140,481.69 which was 93.1 percent for the 2012-13 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$9,529,849.04, which is 6.8 percent of total revenue, compared to \$9,515,577.82, which represented 6.9 percent for the 2012-13 fiscal year.
- On the government-wide financial statements, expenses total \$144,822,918.65. Only \$9,529,849.04 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$4,434,837.31 as compared to the previous fiscal year when expenses exceeded revenues by \$9,138,387.13.
- The General Fund total assigned and unassigned fund balances, representing the net current financial resources available for general appropriation by the Board, totaled \$3,758,754.05 at June 30, 2014, or 3.5 percent of General Fund revenues.
- During the current year, General Fund expenditures exceeded revenues by \$6,128,469.95. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by \$10,635,007.18. These figures do not take into consideration the effect of the transfer from the Capital Projects – Local Capital Improvement Fund.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component unit – The District presents one separate legal entity as a discretely presented component unit, which is The Academy of Environmental Science, Inc. (Charter School). Although a legally separate organization, the Charter School is included as a component unit in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

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

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental funds 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. In particular, the sum of the assigned and unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue - Other Fund, Special Revenue - Federal Economic Stimulus Fund, Capital Projects - Local Capital

Improvement Fund, Capital Projects - ARRA Economic Stimulus Fund, and Debt Service - ARRA Economic Stimulus Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Fund: Proprietary funds may be established to account for activities in which a fee is charged for services. One type of proprietary fund is maintained, an internal service fund. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service fund to account for its employee group self-insurance program and its wellness center. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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 scholarship funds established by private donors.

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2014, compared to net position as of June 30, 2013:

	Net Position, End of Year	
	Governmental	
	Activities	
	6-30-14	6-30-13
Current and Other Assets	\$ 52,072,445.43	\$ 56,235,424.22
Capital Assets	198,271,006.66	201,752,070.34
Total Assets	250,343,452.09	257,987,494.56
Long-Term Liabilities	63,661,819.45	67,004,520.46
Other Liabilities	6,363,213.39	5,840,433.88
Total Liabilities	70,025,032.84	72,844,954.34
Net Position:		
Net Investment in Capital Assets	158,111,398.84	156,341,012.77
Restricted	38,768,225.86	44,301,029.40
Unrestricted Deficit	(16,561,205.45)	(15,499,501.95)
Total Net Position	\$ 180,318,419.25	\$ 185,142,540.22

The largest portion of the District’s net position (87.7 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

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

The key elements of the changes in the District’s net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-14	6-30-13
Program Revenues:		
Charges for Services	\$ 3,394,153.21	\$ 3,571,403.66
Operating Grants and Contributions	5,347,283.89	5,088,085.30
Capital Grants and Contributions	788,411.94	856,088.86
General Revenues:		
Property Taxes, Levied for Operational Purposes	51,194,842.64	49,926,348.52
Property Taxes, Levied for Capital Projects	13,196,875.51	14,830,732.92
Grants and Contributions Not Restricted to Specific Programs	64,070,458.58	61,053,664.38
Unrestricted Investment Earnings	203,277.81	348,755.38
Miscellaneous	2,192,777.76	1,980,980.49
Total Revenues	140,388,081.34	137,656,059.51
Functions/Program Expenses:		
Instruction	74,371,602.63	75,159,145.90
Student Personnel Services	5,511,052.67	5,658,273.39
Instructional Media Services	1,482,900.54	1,594,131.24
Instruction and Curriculum Development Services	3,832,203.88	3,563,090.90
Instructional Staff Training Services	1,505,820.75	1,878,540.94
Instruction Related Technology	1,528,677.18	1,593,760.61
School Board	553,763.30	643,203.22
General Administration	973,961.96	977,491.21
School Administration	8,346,072.26	8,334,356.53
Facilities Acquisition and Construction	2,452,643.56	2,242,184.85
Fiscal Services	786,533.00	874,810.04
Food Services	6,622,099.30	6,439,379.33
Central Services	2,849,934.02	2,223,981.18
Student Transportation Services	7,557,109.95	7,926,848.76
Operation of Plant	8,296,370.12	8,957,478.21
Maintenance of Plant	3,883,103.96	4,827,472.04
Administrative Technology Services	1,744,641.06	1,768,853.02
Community Services	1,546,276.21	1,666,809.16
Unallocated Interest on Long-Term Debt	840,283.03	953,297.49
Unallocated Depreciation Expense	10,079,620.42	9,463,904.50
Loss on Disposal of Capital Assets	58,248.85	47,434.12
Total Functions/Program Expenses	144,822,918.65	146,794,446.64
Change in Net Position	(4,434,837.31)	(9,138,387.13)
Net Position - Beginning	185,142,540.22	194,647,258.05
Adjustment to Beginning Net Position	(389,283.66)	(366,330.70)
Net Position - Beginning, As Restated	184,753,256.56	194,280,927.35
Net Position - Ending	\$ 180,318,419.25	\$ 185,142,540.22

The largest revenue sources are the State of Florida and local property taxes, which are 37.8 percent and 45.9 percent, respectively, of total revenue. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Total government-wide revenues increased by \$2,732,021.83 or 2 percent which was mainly attributable to the increase in FEFP funding during the 2013-2014 fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, total assigned and unassigned fund balance was \$3,758,754.05, while the total fund balance was \$6,902,867.29. Total fund balance decreased by \$285,629.26 during the fiscal year. The key factors impacting the change in fund balance were due to an increase of \$664,784.84 in central services and an increase of \$356,555.47 in instruction, partially offset by a decrease of \$840,187.62 in maintenance of plant expenditures.

The Special Revenue - Other Fund has total revenues and expenditures of \$10,616,625.10 each, and the funding was mainly used for instructional staff salaries and benefits. Because grant revenues are not recognized until expenditures are incurred, this Fund generally does not accumulate a fund balance.

The Special Revenue - Federal Economic Stimulus Fund has total revenues and expenditures of \$554,771.72 each, representing a \$321,185.58 increase in revenues and expenditures over the 2012-13 fiscal year, due to an increase in the funding for the Race-to-the-Top grant program. This funding was mainly used for instructional staff salaries, benefits, and training. Because grant revenues are not recognized until expenditures are incurred, this Fund generally does not accumulate a fund balance.

The Capital Projects - Local Capital Improvement Fund has a total fund balance of \$33,288,862.39, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$5,993,188.11, primarily from transfers to debt service funds for scheduled debt service payments and to the General Fund for allowable maintenance expenditures, capital and capital-related expenditures, and property and casualty insurance premiums. It should be noted that \$3,052,264 of total fund balance has been encumbered for specific projects.

The Capital Projects - ARRA Economic Stimulus Fund has a total fund balance of \$38.04. During the 2009-10 fiscal year, this fund received proceeds from the issuance of \$35,000,000 of qualified school construction bonds (QSCBs) for the construction and remodeling of Crystal River High School, of which \$34,999,928.39 was expended in the previous fiscal years and \$33.57 in the current fiscal year.

The Debt Service - ARRA Economic Stimulus Fund has total expenditures of \$496,128.50 used for the payment of interest on the QSCBs.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2013-14 fiscal year, the District amended its General Fund budget several times, with amendments taken to the Board for approval. Final budget amounts were in line with original budget amounts. The Board approves the final budget amendment after fiscal year-end.

Actual revenues are in line with the final budget amounts, while actual expenditures are \$5,556,810.95, or 4.6 percent, less than final budget amounts. The positive variance in expenditures was primarily due to continued cost

containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$1,856,754.12.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, is \$198,271,006.66 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; and audio visual materials and computer software.

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

Long-Term Debt

During the current fiscal year, the District had total long-term debt of \$40,159,607.82, comprised of \$1,915,000 of State School Bonds, \$35,000,000 of Series 2010A QSCBs, \$2,585,000 of Series 2010B certificates of participation, and an obligation under capital lease of \$659,607.82.

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

OTHER MATTERS OF SIGNIFICANCE

Duke Energy (a utility corporation which owns power plants located in Citrus County) contested its 2012 and 2013 taxable values. Since the amount contested exceeded the tax assessment by more than 6 percent, the District notified the Florida Department of Education (FDOE) in accordance with Section 1011.62(4)(c), Florida Statutes. The FDOE revised the taxable value of the property for FEFP purposes and provided additional State funds of \$4,381,037 and \$10,759,846 for the 2012-13 and 2013-14 fiscal years respectively. On March 24, 2014, a final judgment was agreed upon with Duke Energy regarding the 2012 and 2013 taxable values. The judgment reduced the taxable values by \$857,396,772 and \$2,004,673,400, respectively, for the 2012 and 2013 tax rolls. This resulted in a reduction in local tax collection by the District of \$6,539,365.18 and \$14,660,176.57 for the 2012-13 and 2013-14 fiscal years, respectively.

The District does not expect any additional direct funding from the FDOE in relation to this tax dispute for the 2014-15 fiscal year nor does the District anticipate any material changes to the current level of operations as any future reductions in taxable value would lead to an increase in FEFP based on the method used by the state to determine such revenues. However, as Local Capital Improvement revenues are generated primarily through local property tax collections, District capital improvements and outlay could be affected going forward.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Supervisor of Accounting and Internal Accounts, Citrus County District School Board, 1007 West Main Street, Inverness, Florida 34450.

BASIC FINANCIAL STATEMENTS

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION
June 30, 2014**

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 31,492,987.18	\$ 313,301.00
Investments	15,799,915.38	
Accounts Receivable	214,892.28	
Due from Other Agencies	2,842,282.86	
Prepaid Items	232,189.30	
Inventories	550,412.59	
Capital Credits Receivable	939,765.84	
Capital Assets:		
Nondepreciable Capital Assets	8,906,835.05	
Depreciable Capital Assets, Net	189,364,171.61	224,630.00
TOTAL ASSETS	250,343,452.09	537,931.00
LIABILITIES		
Payroll Deductions and Withholdings	191,127.88	
Accounts Payable	2,279,290.24	3,162.00
Construction Contracts Payable - Retainage	189,601.05	
Due to Other Agencies	113,643.10	
Advanced Revenue	1,565,132.03	
Estimated Insurance Claims Payable	2,024,419.09	
Long-Term Liabilities:		
Portion Due Within One Year	4,695,607.82	
Portion Due After One Year	58,966,211.63	
TOTAL LIABILITIES	70,025,032.84	3,162.00
NET POSITION		
Net Investment in Capital Assets	158,111,398.84	224,630.00
Restricted for:		
State Required Carryover Programs	2,507,968.69	25,221.00
Debt Service	50,182.49	
Capital Projects	33,289,091.74	99,368.00
Food Service	2,920,982.94	
Unrestricted	(16,561,205.45)	185,550.00
TOTAL NET POSITION	\$ 180,318,419.25	\$ 534,769.00

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 74,371,602.63	\$ 1,146,007.53	\$	\$
Student Personnel Services	5,511,052.67			
Instructional Media Services	1,482,900.54			
Instruction and Curriculum Development Services	3,832,203.88			
Instructional Staff Training Services	1,505,820.75			
Instruction Related Technology	1,528,677.18			
School Board	553,763.30			
General Administration	973,961.96			
School Administration	8,346,072.26			
Facilities Acquisition and Construction	2,452,643.56	35,848.54		267,050.47
Fiscal Services	786,533.00			
Food Services	6,622,099.30	1,594,050.43	5,347,283.89	
Central Services	2,849,934.02			
Student Transportation Services	7,557,109.95			
Operation of Plant	8,296,370.12			
Maintenance of Plant	3,883,103.96			
Administrative Technology Services	1,744,641.06			
Community Services	1,546,276.21	618,246.71		
Unallocated Interest on Long-Term Debt	840,283.03			521,361.47
Unallocated Depreciation/Amortization Expense	10,079,620.42			
Loss on Disposal of Capital Assets	58,248.85			
Total Primary Government	\$ 144,822,918.65	\$ 3,394,153.21	\$ 5,347,283.89	\$ 788,411.94
Component Unit				
Charter School	\$ 650,581.00	\$ 0.00	\$ 0.00	\$ 68,636.00

General Revenues:

Taxes:

- Property Taxes, Levied for Operational Purposes
- Property Taxes, Levied for Capital Projects
- Grants and Contributions Not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous

Total General Revenues

Change in Net Position

- Net Position - Beginning
- Adjustment to Beginning Net Position
- Net Position - Beginning, As Restated

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government Governmental Activities	Component Unit
\$ (73,225,595.10)	\$
(5,511,052.67)	
(1,482,900.54)	
(3,832,203.88)	
(1,505,820.75)	
(1,528,677.18)	
(553,763.30)	
(973,961.96)	
(8,346,072.26)	
(2,149,744.55)	
(786,533.00)	
319,235.02	
(2,849,934.02)	
(7,557,109.95)	
(8,296,370.12)	
(3,883,103.96)	
(1,744,641.06)	
(928,029.50)	
(318,921.56)	
(10,079,620.42)	
(58,248.85)	
<u>(135,293,069.61)</u>	
	<u>(581,945.00)</u>
51,194,842.64	
13,196,875.51	
64,070,458.58	724,951.00
203,277.81	
<u>2,192,777.76</u>	<u>820.00</u>
<u>130,858,232.30</u>	<u>725,771.00</u>
(4,434,837.31)	143,826.00
185,142,540.22	390,943.00
(389,283.66)	
<u>184,753,256.56</u>	<u>390,943.00</u>
<u>\$ 180,318,419.25</u>	<u>\$ 534,769.00</u>

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS				
Cash and Cash Equivalents	\$ 3,707,061.77	\$	\$	\$ 23,424,397.32
Investments	1,749,732.89			10,500,000.00
Accounts Receivable	68,037.38			
Due from Other Funds	419,908.53			
Due from Other Agencies	1,693,610.55	713,159.32	9,869.33	339,780.70
Prepaid Items	232,189.30			
Inventories	327,797.68			
TOTAL ASSETS	\$ 8,198,338.10	\$ 713,159.32	\$ 9,869.33	\$ 34,264,178.02
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 189,649.44	\$	\$	\$
Accounts Payable	897,040.47	346,534.06	8,916.56	785,714.58
Construction Contracts Payable - Retainage		366,625.26	952.77	189,601.05
Due to Other Funds		366,625.26	952.77	
Due to Other Agencies	113,643.10			
Advanced Revenue	95,137.80			
Total Liabilities	1,295,470.81	713,159.32	9,869.33	975,315.63
Fund Balances:				
Nonspendable:				
Prepaid Items	232,189.30			
Inventories	327,797.68			
Fund B Investments	76,157.57			
Total Nonspendable Fund Balance	636,144.55			
Restricted for:				
Food Service				
State Required Carryover Programs	2,507,968.69			
Debt Service				
Capital Projects				33,288,862.39
Total Restricted Fund Balance	2,507,968.69			33,288,862.39
Assigned for:				
Carryover Programs	134,423.98			
Unassigned Fund Balance	3,624,330.07			
Total Fund Balances	6,902,867.29			33,288,862.39
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,198,338.10	\$ 713,159.32	\$ 9,869.33	\$ 34,264,178.02

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

Capital Projects - ARRA Economic Stimulus Fund	Debt Service - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$ 38.04	\$	\$ 1,249,040.49	\$ 28,380,537.62
		1,550,182.49	13,799,915.38
		396.59	68,433.97
		85,862.96	419,908.53
		199,793.08	2,842,282.86
			232,189.30
			527,590.76
<u>\$ 38.04</u>	<u>\$ 0.00</u>	<u>\$ 3,085,275.61</u>	<u>\$ 46,270,858.42</u>
\$	\$	\$ 1,052.84	\$ 190,702.28
		60,535.53	2,098,741.20
		52,330.50	189,601.05
			419,908.53
			113,643.10
			95,137.80
		<u>113,918.87</u>	<u>3,107,733.96</u>
			232,189.30
		199,793.08	527,590.76
			76,157.57
		<u>199,793.08</u>	<u>835,937.63</u>
		2,721,189.86	2,721,189.86
		50,182.49	2,507,968.69
38.04		191.31	50,182.49
<u>38.04</u>		<u>2,771,563.66</u>	<u>33,289,091.74</u>
			134,423.98
			<u>3,624,330.07</u>
38.04		2,971,356.74	43,163,124.46
<u>\$ 38.04</u>	<u>\$ 0.00</u>	<u>\$ 3,085,275.61</u>	<u>\$ 46,270,858.42</u>

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balances - Governmental Funds \$ 43,163,124.46

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 198,271,006.66

Premiums paid on long-term debt issuance are reported as other financing sources in the governmental funds, but as unamortized premiums in the government-wide statements and amortized over the life of the debt. (39,256.70)

Capital credits to be received in future years are not available to liquidate liabilities in the governmental funds, but are accrued in the government-wide statements. 939,765.84

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 1,645,598.44

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:

Obligation Under Capital Lease	\$ 659,607.82	
Certificates of Participation Payable	37,585,000.00	
Bonds Payable	1,915,000.00	
Compensated Absences Payable	5,355,824.63	
Other Postemployment Benefits Payable	18,146,387.00	(63,661,819.45)

Net Position - Governmental Activities **\$ 180,318,419.25**

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

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**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 197,882.66	\$ 1,041,226.96	\$	\$
Federal Through State and Local State	384,364.00 52,326,233.60	9,575,398.14	554,771.72	
Local:				
Property Taxes	51,194,842.64			13,196,875.51
Impact Fees				
Charges for Services - Food Service				
Miscellaneous	3,931,256.87			138,604.38
Total Local Revenues	<u>55,126,099.51</u>			<u>13,335,479.89</u>
Total Revenues	<u>108,034,579.77</u>	<u>10,616,625.10</u>	<u>554,771.72</u>	<u>13,335,479.89</u>
Expenditures				
Current - Education:				
Instruction	68,734,504.18	5,223,720.11	246,400.87	
Student Personnel Services	4,856,346.18	642,333.29		
Instructional Media Services	1,479,571.19			
Instruction and Curriculum Development Services	1,482,351.44	2,314,500.98	26,806.37	
Instructional Staff Training Services	558,622.23	830,918.12	112,899.59	
Instruction Related Technology	1,506,585.90		18,659.16	
School Board	552,520.02			
General Administration	460,170.08	487,646.09	23,959.09	
School Administration	8,308,586.41	7,302.00	11,445.58	
Facilities Acquisition and Construction	428,049.59			1,693,129.44
Fiscal Services	784,767.11			
Food Services	14,615.39			
Central Services	2,829,018.93	6,323.91	8,192.62	
Student Transportation Services	7,535,886.03	4,257.00		
Operation of Plant	8,277,743.44			
Maintenance of Plant	3,874,385.77			
Administrative Technology Services	1,676,258.22		64,465.84	
Community Services	539,252.67	1,003,551.90		
Fixed Capital Outlay:				
Facilities Acquisition and Construction	77,947.77			4,727,658.56
Other Capital Outlay	185,867.17	96,071.70	41,942.60	1,518,309.31
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>114,163,049.72</u>	<u>10,616,625.10</u>	<u>554,771.72</u>	<u>7,939,097.31</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,128,469.95)</u>			<u>5,396,382.58</u>
Other Financing Sources (Uses)				
Transfers In	5,784,121.20			
Proceeds from Sale of Capital Assets	199.91			1,465.99
Insurance Loss Recoveries	58,519.58			
Transfers Out				(11,391,036.68)
Total Other Financing Sources (Uses)	<u>5,842,840.69</u>			<u>(11,389,570.69)</u>
Net Change in Fund Balances	(285,629.26)			(5,993,188.11)
Fund Balances, Beginning	7,188,496.55			39,282,050.50
Fund Balances, Ending	<u>\$ 6,902,867.29</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 33,288,862.39</u>

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

Capital Projects - ARRA Economic Stimulus Fund	Debt Service - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		5,259,389.89	1,239,109.62
		778,043.14	15,773,923.75
			53,104,276.74
			64,391,718.15
		88,844.30	88,844.30
		1,594,050.43	1,594,050.43
73.03		39,013.00	4,108,947.28
<u>73.03</u>		<u>1,721,907.73</u>	<u>70,183,560.16</u>
73.03		7,759,340.76	140,300,870.27
			74,204,625.16
			5,498,679.47
			1,479,571.19
			3,823,658.79
			1,502,439.94
			1,525,245.06
			552,520.02
			971,775.26
			8,327,333.99
			2,121,179.03
			784,767.11
		6,592,616.24	6,607,231.63
			2,843,535.46
			7,540,143.03
			8,277,743.44
			3,874,385.77
			1,740,724.06
			1,542,804.57
		278,212.73	5,083,819.06
		61,297.08	1,903,487.86
		5,232,138.80	5,232,138.80
	496,128.50	415,762.74	911,891.24
	496,128.50	12,580,027.59	146,349,699.94
73.03	(496,128.50)	(4,820,686.83)	(6,048,829.67)
	496,128.50	5,110,896.36	11,391,146.06
			1,665.90
			58,519.58
(106.60)		(2.78)	(11,391,146.06)
(106.60)	496,128.50	5,110,893.58	60,185.48
(33.57)		290,206.75	(5,988,644.19)
71.61		2,681,149.99	49,151,768.65
\$ 38.04	\$ 0.00	\$ 2,971,356.74	\$ 43,163,124.46

**CITRUS 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, 2014**

Net Change in Fund Balances - Governmental Funds \$ (5,988,644.19)

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. (3,422,814.83)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (58,248.85)

Capital credits to be received in future years are accrued in the government-wide statements, but the credits do not provide current financial resources and are not recognized in the governmental funds.

Current Year Accruals	\$	939,765.84	
Less: Prior Year Accruals		(912,740.25)	
			27,025.59

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Obligation Under Capital Lease Principal Payments	2,297,138.80		
Bonds Principal Payments	415,000.00		
Certificates of Participation Principal Payments	2,520,000.00		
			5,232,138.80

Premiums are reported in the governmental funds in the fiscal year the debt is issued, but are capitalized and amortized over the life of the debt in the statement of activities. The following details the effect of premiums in the current period:

<u>Unamortized Premiums (Certificates of Participation Payable)</u>			
Prior Year		91,598.96	
Less: Current Year		(39,256.70)	
			52,342.26
<u>Unamortized Premiums (Obligation Under Capital Lease Payable)</u>			
Prior Year		19,265.95	
Less: Current Year		0.00	
			19,265.95

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 348,103.26

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. (2,256,807.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. 1,612,801.70

Change in Net Position - Governmental Activities **\$ (4,434,837.31)**

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET POSITION -
PROPRIETARY FUND
June 30, 2014**

		Governmental Activities - Internal Service Fund
		Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	3,112,449.56
Investments		2,000,000.00
Accounts Receivable		146,458.31
Inventories		22,821.83
		5,281,729.70
TOTAL ASSETS		
LIABILITIES		
Current Liabilities:		
Payroll Deductions and Withholdings		425.60
Accounts Payable		180,549.04
Advanced Revenue		1,430,737.53
Estimated Insurance Claims Payable		2,024,419.09
		3,636,131.26
Total Liabilities		
NET POSITION		
Unrestricted	\$	1,645,598.44

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014**

		Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	\$	3,122.50
Premium Revenues		13,570,101.40
Other Operating Revenues		83,896.84
Total Operating Revenues		13,657,120.74
OPERATING EXPENSES		
Salaries		81,990.69
Employee Benefits		18,210.56
Purchased Services		3,095,037.61
Energy Services		3,475.93
Materials and Supplies		36,744.86
Capital Outlay		51,537.72
Insurance Claims		9,033,504.14
Total Operating Expenses		12,320,501.51
Operating Income		1,336,619.23
NONOPERATING REVENUES		
Interest Revenue		17,182.47
Gifts, Grants, and Bequests		7,000.00
Other Nonoperating Revenues		252,000.00
Total Nonoperating Revenues		276,182.47
Change in Net Position		1,612,801.70
Total Net Position - Beginning		32,796.74
Total Net Position - Ending	\$	1,645,598.44

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014**

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Premiums	\$	13,124,665.50
Cash Received from Other Operating Revenues		38,707.24
Cash Payments to Suppliers for Goods and Services		(3,208,306.27)
Cash Payments to Employees for Services		(100,144.42)
Cash Payments for Insurance Claims		(8,741,482.82)
		1,113,439.23
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Nonoperating Revenues		252,000.00
Gifts and Grants Received		7,000.00
		259,000.00
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(496,088.66)
Interest Income		17,182.47
		(478,906.19)
Net Increase in Cash and Cash Equivalents		893,533.04
Cash and Cash Equivalents, Beginning		2,218,916.52
Cash and Cash Equivalents, Ending	\$	3,112,449.56

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$	1,336,619.23
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Accounts Receivable		(103,294.75)
Due From Other Agencies		87.50
Inventories		(983.11)
Prepaid Items		58,105.15
Salaries and Benefits Payable		(368.77)
Payroll Deductions and Withholdings		425.60
Accounts Payable		(20,527.04)
Advanced Revenue		(448,645.90)
Estimated Insurance Claims Payable		292,021.32
		(223,180.00)
Total Adjustments		(223,180.00)
Net Cash Provided by Operating Activities	\$	1,113,439.23

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2014**

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 324,864.23	\$ 2,322,995.00
Accounts Receivable		37,865.00
Inventories		3,060.00
	<u>\$ 324,864.23</u>	<u>\$ 2,363,920.00</u>
TOTAL ASSETS		
	<u>\$ 324,864.23</u>	<u>\$ 2,363,920.00</u>
LIABILITIES		
Accounts Payable	\$	\$ 33,549.00
Internal Accounts Payable		2,330,371.00
	<u>\$</u>	<u>\$ 2,363,920.00</u>
Total Liabilities		
	<u>\$</u>	<u>\$ 2,363,920.00</u>
NET POSITION		
Held in Trust for Scholarships and Other Purposes	<u>324,864.23</u>	
Total Net Position	<u>\$ 324,864.23</u>	

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2014**

	<u>Private-Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Gifts, Grants, Endowments, and Bequests	\$ 15,655.00
Investment Earnings:	
Interest, Dividends, and Other	<u>299.67</u>
Total Additions	<u>15,954.67</u>
DEDUCTIONS	
Scholarship Payments	<u>20,000.00</u>
Change in Net Position	(4,045.33)
Net Position - Beginning	<u>328,909.56</u>
Net Position - Ending	<u><u>\$ 324,864.23</u></u>

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

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

B. Reporting Entity

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

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

Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as part of the District. The Citrus County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note III.I.1. Due to the substantive economic relationship between the District and the

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

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

The Academy of Environmental Science, Inc. (Charter School), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter school operates under a charter approved by its sponsor, the Citrus County District School Board. The charter school is considered to be a component unit of the District because the District is financially accountable for the charter school as the District established the charter school by approval of the charter, which is tantamount to the initial appointment of the charter school, and there is the potential for the charter school to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter school is a public school and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the charter school's audited financial statements for the fiscal year ended June 30, 2014. The audit report is filed in the District's administrative offices.

C. Basis of Presentation: Government-wide Financial Statements

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

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used.

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – ARRA Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for Qualified School Construction Bonds (QSCBs).
- 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.
- Capital Projects – ARRA Economic Stimulus Fund – to account for financial resources generated by proceeds from the issuance of QSCBs used for the construction and remodeling of Crystal River High School.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Fund – to account for the District’s Employee Health Self-Insurance Program and Wellness Center.
- Private-Purpose Trust Funds – to account for various endowments in the school internal funds for Citrus High School students and for the resources of the Karl C. Schulz Trust Fund, which are used for student scholarships.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

E. Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 30 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary and private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

The charter school is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of 50 days or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, 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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.84438408 at June 30, 2014. 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 money market mutual funds, Federal instrumentalities obligations, United States Treasury obligations, corporate bonds, and municipal bonds and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

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

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

5. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. Debt premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt is reported net of the applicable premium or discount.

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

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

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

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

The committed fund balance classification may include amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 2014.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by adoption of Board Policy 7.20 authorized the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

In addition, the District has adopted Board Policy 7.10 which provides for an adequate unassigned fund balance to cover unforeseen events including, but not limited to, revenue shortfalls and student enrollment under-projections. This policy provides, when feasible, that the adopted annual operating fund budget approved by the Board include, if feasible, an unassigned fund balance, which is at least 3.5 percent of the recurring revenues budget.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal 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 fiscal year when the adjustments are made.

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

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

3. District Property Taxes

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

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

The Board adopted the 2013 tax levy on September 10, 2013. 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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

when taxes are received by the District, except that revenue is accrued for taxes collected by the Citrus County Tax Collector at fiscal year-end but not yet remitted to the District.

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

4. Educational Impact Fees

Citrus County (County) imposes an educational impact fee based on an ordinance adopted by the County Commission in 1986. This ordinance was most recently amended in February 2011, when Ordinance 2011-A03 established, in part, revised fees to be collected. The educational impact fee is collected for most new residential construction by the County and each municipality within the County based on an interlocal agreement. The fees are to be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development and are not to be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness necessitated by new residential development.

5. Federal Revenue Sources

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

6. Compensated Absences

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

7. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for employee health insurance premiums. Operating expenses include insurance claims, premiums for reinsurance, and operating the Wellness Center. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

II. ACCOUNTING CHANGES

Governmental Accounting Standards Board Statement No. 65. The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the 2013-14 fiscal year. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items previously reported as assets and liabilities, respectively. As such, the District decreased the beginning net position by \$389,283.66 to \$184,753,256.56 in the government-wide statement of activities for deferred debt issuance costs of previously issued debt, which were previously reported as an asset. This reporting change affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 2,604,892.11
Fund B	2.86 Year Average	76,157.57
Debt Service Accounts	6 Months	50,182.49
TD American (TDAM) Bank:		
TD Asset Management U.S. Institutional Services	52 Day Average	2,142,300.22
U.S. Treasury Notes	6-12 months	598,413.29
U.S. Treasury Notes	1-2 years	2,489,242.50
U.S. Treasury Bonds	1-2 years	597,257.81
U.S. Treasury Bonds	> 2 years	250,283.20
Federal Home Loan Bank (FHLB) Notes	6-12 months	430,894.40
FHLB Notes	1-2 years	973,937.50
Federal Home Loan Mortgage (FHLM) Notes	6-12 months	431,199.70
FHLMC Notes	1-2 years	450,549.00
Federal National Mortgage Association (FNMA) Notes	1-2 years	1,601,660.00
FNMA Notes	> 2 years	698,298.00
Municipal Bonds	6-12 months	204,088.00
Municipal Bonds	1-2 years	1,240,704.70
Municipal Bonds	> 2 years	501,975.00
Corporate Bonds	6-12 months	506,695.00
Corporate Bonds	1-2 years	1,520,745.00
Corporate Bonds	> 2 years	1,035,332.00
Total Investments		\$ 18,404,807.49

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

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds will have maturities of no longer than 18 months. Investments of bond reserves, construction funds, and other nonoperating funds (core funds) shall have a term appropriate to the need for funds, and in accordance with debt covenants, but should not exceed five years, and the average duration of the funds as a whole may not exceed three years.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. 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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ **Credit Risk**

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

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

Investments	Standard & Poor's Rating	Moody's Rating
SBA:		
Florida PRIME (1)	AAA	
Fund B	Not rated	
Debt Service Accounts	(1)	(1)
TD American (TDAM) Bank:		
TD Asset Management U.S. Institutional Services	AAA	
U.S. Treasury Notes	AA+	Aaa
U.S. Treasury Bonds	AA+	Aaa
Federal Home Loan Bank (FHLB) Notes	AA+	Aaa
Federal Home Loan Mortgage (FHLM) Notes	AA+	Aaa
Federal National Mortgage Association (FNMA) Notes	AA+	Aaa
Municipal Bonds	AAA to AA-	Aaa to Aa2
Corporate Bonds	AA+ to A	Aa1 to A3

Note: (1) The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this investment.

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy pursuant to Section 218.415(18), Florida Statutes, requires securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal government, the State of Florida, or any other

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

state or territory of the United States which has a branch or principal place of business in the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

As of June 30, 2014, the District's investment portfolio was held with a third-party custodian as required by the District's investment policy.

➤ Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy has established asset allocation and issuer limits on the following investments which are designed to reduce concentration of credit risk of the District's investment portfolio. A maximum of 25 percent of available funds may be invested in Florida PRIME, 100 percent of available funds may be invested in United States Government Securities, 50 percent of available funds may be invested in United States Government agencies with a 25 percent limit on individual issuers, 80 percent of available funds may be invested in Federal instrumentalities with a 50 percent limit on individual issuers, 25 percent of available funds may be invested in nonnegotiable interest-bearing time certificates of deposit with a 15 percent limit on individual issuers, 50 percent of available funds may be invested in repurchase agreements with a 25 percent limit on individual issuers, 35 percent of available funds may be invested in commercial paper with a 10 percent limit on individual issuers, 20 percent of available funds may be invested in corporate notes with a 5 percent limit on individual issuers, 20 percent of available funds may be invested in State and/or local government taxable and/or tax-exempt debt, 75 percent of available funds may be invested in registered investment companies (money market mutual funds) with a 25 percent limit on individual issuers, 25 percent of available funds may be invested in short term bond funds with a 10 percent limit on individual issuers, and 25 percent of available funds may be invested in intergovernmental investment pools.

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Investments in each issuer of the District’s investments are reported below:

Security Type	Portfolio Fair Value	Asset Allocation
State Board of Administration (SBA):		
Florida PRIME	\$ 2,604,892.11	14.15%
Fund B Surplus Funds Trust Fund (Fund B)	76,157.57	0.41%
Debt Service Accounts	50,182.49	0.27%
TD Asset Management U.S. Institutional Services	2,142,300.22	11.64%
U.S. Treasury Notes	3,087,655.79	16.78%
U.S. Treasury Bonds	847,541.01	4.60%
FHLB Notes	1,404,831.90	7.63%
FHLM Notes	881,748.70	4.79%
FNMA Notes	2,299,958.00	12.50%
Municipal Bonds		
Ulster County	104,328.00	0.57%
Pontiac, Michigan	99,760.00	0.54%
Irving, Texas	635,789.70	3.45%
Queensbury New York Union	104,915.00	0.57%
Maryland State	501,975.00	2.73%
New York State	500,000.00	2.72%
Corporate Bonds		
JP Morgan Chase & Co	506,695.00	2.75%
General Electric	500,437.50	2.72%
Wal-Mart	520,145.00	2.83%
Toyota Motor Credit	515,817.00	2.80%
Toronto-Dominion Bank	519,515.00	2.82%
General Electric Capital	250,812.50	1.36%
Apple	249,350.00	1.35%
Total	\$ 18,404,807.49	100.00%

The FHLB notes comprise 8 percent of total investments, 9 percent of General Fund investments, 9 percent of Local Capital Improvement Fund (LCIF) investments, and 9 percent of other governmental fund investments. The FNMA notes comprise 13 percent of total investments, 14 percent of General Fund investments, 15 percent of LCIF investments, and 14 percent of other governmental fund investments.

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C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 5,184,974.19	\$	\$	\$ 5,184,974.19
Construction in Progress	1,227,192.84	4,763,590.41	2,268,922.39	3,721,860.86
Total Capital Assets Not Being Depreciated	6,412,167.03	4,763,590.41	2,268,922.39	8,906,835.05
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	26,031,237.89	136,466.47		26,167,704.36
Buildings and Fixed Equipment	221,577,789.14	2,132,455.92		223,710,245.06
Furniture, Fixtures, and Equipment	18,791,091.91	1,013,023.27	1,117,084.98	18,687,030.20
Motor Vehicles	17,701,920.18	840,456.00	643,034.40	17,899,341.78
Property Under Capital Lease	7,697,328.04		3,972.90	7,693,355.14
Audio Visual Materials and Computer Software	3,441,838.80	39,735.91	169,766.32	3,311,808.39
Total Capital Assets Being Depreciated	295,241,205.96	4,162,137.57	1,933,858.60	297,469,484.93
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	12,641,572.51	965,121.67		13,606,694.18
Buildings and Fixed Equipment	56,465,770.48	4,405,992.02		60,871,762.50
Furniture, Fixtures, and Equipment	13,287,942.39	1,514,552.61	1,113,300.01	13,689,194.99
Motor Vehicles	12,017,257.66	1,242,440.00	604,009.32	12,655,688.34
Property Under Capital Lease	3,132,586.16	1,538,484.83	1,573.71	4,669,497.28
Audio Visual Materials and Computer Software	2,356,173.45	413,029.29	156,726.71	2,612,476.03
Total Accumulated Depreciation	99,901,302.65	10,079,620.42	1,875,609.75	108,105,313.32
Total Capital Assets Being Depreciated, Net	195,339,903.31	(5,917,482.85)	58,248.85	189,364,171.61
Governmental Activities Capital Assets, Net	\$ 201,752,070.34	\$ (1,153,892.44)	\$ 2,327,171.24	\$ 198,271,006.66

The District’s capital assets serve several functions; accordingly, depreciation expense, which totaled \$10,079,620.42, is charged to unallocated depreciation on the statement of activities.

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

D. Florida Retirement System

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management

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Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
DROP - Applicable to Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$5,871,682.72, \$6,033,606.66, and \$7,830,271.76, respectively, which were equal to the required contributions for each fiscal year.

There were 272 District participants in the Investment Plan during the 2013-14 fiscal year. The District’s contributions including employee contributions to the Investment Plan totaled \$843,639.86, which was equal to the required contribution for the 2013-14 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, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department’s Web site (www.myfloridacfo.com). 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, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division’s Web site (www.frs.myflorida.com).

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District, or its component unit, Academy of Environmental Science, Inc., are eligible to participate in the District’s health, life, and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced

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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 administration 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 2013-14 fiscal year, 245 retirees received other postemployment benefits. The District provided required contributions of \$849,242 toward the annual OPEB cost, net of retiree contributions totaling \$1,492,578, which represents 2.6 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 1,552,244
Amortization of Unfunded Actuarial Accrued Liability	<u>1,988,029</u>
Annual Required Contribution	3,540,273
Interest on Net OPEB Obligation	476,687
Adjustment to Annual Required Contribution	<u>(910,911)</u>
Annual OPEB Cost (Expense)	3,106,049
Contribution Toward the OPEB Cost	<u>(849,242)</u>
Increase in Net OPEB Obligation	2,256,807
Net OPEB Obligation, Beginning of Year	<u>15,889,580</u>
Net OPEB Obligation, End of Year	<u><u>\$ 18,146,387</u></u>

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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, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 3,395,861	19.28%	\$ 13,105,775
2012-13	3,471,150	19.80%	15,889,580
2013-14	3,106,049	27.34%	18,146,387

Funded Status and Funding Progress. As of June 30, 2014, the most recent valuation date, the actuarial accrued liability for benefits was \$34,678,407, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$34,678,407 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$56,702,237, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 61.16 percent.

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

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

The District’s OPEB actuarial valuation as of June 30, 2014, used the level dollar amortization cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the District’s 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The investment rate of return and the healthcare trend rate include a general price inflation of 2.5 percent. The actuarial assumptions also included an annual healthcare cost trend rate of 5.37 percent initially for the 2014 calendar year, increasing and decreasing in various increments and decrements each year to an ultimate rate of 4.35 percent in year 2085. The

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unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2014, was 23 years.

F. Construction and Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2014:

Major Funds			
General	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 69,323	\$ 3,052,264	\$ 148,128	\$ 3,269,715

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

Project	Contract Amount	Completed to Date	Balance Committed
Citrus Springs Middle School HVAC Replacement Project			
Engineer	\$ 181,206.00	\$ 144,842.52	\$ 36,363.48
Construction Manager	1,634,425.70	215,744.66	1,418,681.04
Total	\$1,815,631.70	\$ 360,587.18	\$ 1,455,044.52

G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in a group self-insurance program administered by the Florida School Boards Association, Inc. The District's covered risks relating to property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members are included in the group program. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The program 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 program is composed of one board member from each participating district and a superintendent and a district-level business officer selected from one of the participating districts. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

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The District’s health insurance program is being provided on a self-insured basis up to specific limits. The District entered into an agreement with Symetra Financial to provide individual and aggregate excess coverage. Symetra will reimburse 100 percent of individual claims in excess of \$175,000 and the aggregate reimbursement maximum is \$1,000,000 per policy period. The District has applied for an Individual Excess Loss Advantage Provision with Symetra and will pay the first \$300,000 deductible of eligible reimbursable claims. Blue Cross Blue Shield of Florida administers this self-insurance program, including the processing, investigation and payment of claims. The lifetime maximum for each individual covered is unlimited.

Additionally, the District has entered into a contract with CareHere! to operate a wellness center. Employees who have District health insurance may see a doctor and receive stocked generic medicines free of charge.

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

A liability in the amount of \$2,024,419.09 represents estimated incurred, but not reported, insurance claims payable at June 30, 2014.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2012-13	\$ 2,112,596.42	\$ 10,311,578.85	\$ (10,691,777.50)	\$ 1,732,397.77
2013-14	1,732,397.77	9,033,504.14	(8,741,482.82)	2,024,419.09

H. Obligation Under Capital Lease

The class and amounts of property being acquired under capital lease are as follows:

	<u>Asset Balance</u>
Computer Equipment	<u>\$ 7,693,355.14</u>

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Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	<u>\$ 693,574.13</u>	<u>\$ 659,607.82</u>	<u>\$ 33,966.31</u>

The imputed interest rate is 5.03 percent and the lease matures on August 1, 2014.

I. Long-Term Liabilities

1. Certificates of Participation

The District entered into a financing arrangement on April 1, 2010, which was characterized as a lease-purchase agreement, with the Citrus County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities in the total amount of \$46,945,000.

The financing was accomplished through the issuance of Certificates of Participation (COPs), Series 2010A-Qualified School Construction Bonds (QSCB), in the amount of \$35,000,000 and COPs Series 2010B in the amount of \$11,945,000, to be repaid from the proceeds of rents paid by the District.

The American Recovery and Reinvestment Act (ARRA) of 2009, signed into law on February 17, 2009, created a new category of direct subsidy debt for school districts, QSCBs. The QSCB does not represent incremental Federal funding; it must be repaid by the District.

The Series 2010A-QSCBs are designated as “qualified school construction bonds” as defined in Section 54F of the Internal Revenue Code (Code), and pursuant to Section 6431 of the Code, the Board has elected to receive Federal subsidy payments on each interest payment date for the Series 2010A-QSCBs in the an amount equal to the lesser of the amount of interest payable with respect to the Series 2010A-QSCBs on such date or the amount of interest which would have been payable with respect to the Series 2010A-QSCBs if interest were determined at the applicable tax credit rate for the Series 2010A-QSCBs pursuant to Section 54A(b)(3) of the Code. The interest rate is 6.738 percent with an allowed Federal subsidy of 5.78 percent, yielding a net amount of 0.958 percent.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$1 per year. The initial term of the lease for the Series 2010A-QSCBs is 10 years commencing on April 1, 2010, and the initial term for the COPs Series 2010B is 22 years commencing on April 1, 2010. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up to 22 years from the date of inception of the arrangement.

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The Leasing Corporation issued the Series 2010A-QSCBs in the amount of \$35,000,000 to finance the cost of additions and renovations to Crystal River High School.

The Leasing Corporation issued the COPs Series 2010B in the amount of \$11,945,000 to finance the cost of additions and renovations to Crystal River Primary School.

For the Series 2010A-QSCBs, the principal portion of the basic lease payment, \$35,000,000, is due on April 1, 2027. The interest portion of the basic lease payments is due on each April 1 and October 1, commencing October 1, 2010. The sinking fund payments, which are subject to change, are due on April 1 during each period, commencing on April 1, 2016. The sinking fund payments to be made by the District with respect to the Series 2010A-QSCB will be deposited by the trustee into the Series 2010A Sinking Fund Account pursuant to the trust agreement. Such funds will be invested in investment securities in accordance with the trust agreement. The Board may offset sinking fund payments with the interest earnings on amounts in the Series 2010A Sinking Fund Account, provided that the sinking fund payments will be funded at a rate not more rapid than equal, annual installments in an aggregate amount not in excess of the principal component due at maturity. Sinking fund payments on deposit in the Series 2010A Sinking Fund Account will be retained therein until transferred to the Series 2010A Lease Payment Account and applied to the payment of the \$35,000,000 principal component due on the Series 2010A-QSCBs at maturity (April 1, 2027) or upon earlier prepayment.

For Series 2010B, the lease payments are payable by the District semiannually, on October 1 and April 1 at interest rates ranging from 2.75 to 3.00 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Series 2010A-QSCB		COPs Series 2010B	
		Principal	Interest	Principal	Interest
2015	\$ 5,018,350	\$	\$ 2,358,300	\$ 2,585,000	\$ 75,050
2016	2,358,300		2,358,300		
2017	2,358,300		2,358,300		
2018	2,358,300		2,358,300		
2019	2,358,300		2,358,300		
2020-2024	11,791,500		11,791,500		
2025-2027	42,074,900	35,000,000	7,074,900		
Total Certificates of Participation	\$ 68,317,950	\$ 35,000,000	\$ 30,657,900	\$ 2,585,000	\$ 75,050

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2. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 1,765,000	5	2018
Series 2009A, Refunding	<u>150,000</u>	5	2019
Total Bonds Payable	<u><u>\$ 1,915,000</u></u>		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2015	\$ 530,750	\$ 435,000	\$ 95,750
2016	534,000	460,000	74,000
2017	531,000	480,000	51,000
2018	537,000	510,000	27,000
2019	<u>31,500</u>	<u>30,000</u>	<u>1,500</u>
Total State School Bonds	<u><u>\$ 2,164,250</u></u>	<u><u>\$ 1,915,000</u></u>	<u><u>\$ 249,250</u></u>

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3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Obligation Under Capital Lease	\$ 2,976,012.57	\$	\$ 2,316,404.75	\$ 659,607.82	\$ 659,607.82
Certificates of Participation Payable	40,105,000.00		2,520,000.00	37,585,000.00	2,585,000.00
Bonds Payable	2,330,000.00		415,000.00	1,915,000.00	435,000.00
Compensated Absences Payable	5,703,927.89	644,791.68	992,894.94	5,355,824.63	1,016,000.00
Other Postemployment Benefits Payable	15,889,580.00	3,106,049.00	849,242.00	18,146,387.00	
Total Governmental Activities	<u>\$ 67,004,520.46</u>	<u>\$ 3,750,840.68</u>	<u>\$ 7,093,541.69</u>	<u>\$ 63,661,819.45</u>	<u>\$ 4,695,607.82</u>

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

J. Fund Balance Reporting

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

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

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

K. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 419,908.53	\$
Special Revenue:		
Federal Economic Stimulus		952.77
Other		366,625.26
Capital Projects:		
Other		52,330.50
Total	\$ 419,908.53	\$ 419,908.53

Interfund receivables and payables are temporary loans of cash between funds allowable under Section 1011.09, Florida Statutes, for a period of less than 13 months. The temporary loans do not restrict, impede, or limit implementation or fulfillment of the original purposes for which the moneys were received in the fund providing the advancement.

L. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District’s State revenue sources for the 2013-14 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 32,310,327.00
Categorical Educational Program - Class Size Reduction	15,232,212.00
Workforce Development Program	2,705,849.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	630,931.64
Voluntary Prekindergarten Program	588,368.74
School Recognition	519,760.00
Workforce Education Performance	128,797.00
Adults with Disabilities	95,393.00
Mobile Home License Tax	89,500.76
Food Service Supplement	87,894.00
Charter School Capital Outlay	68,636.00
Full Service Schools	56,485.00
Miscellaneous	590,122.60
Total	\$ 53,104,276.74

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.065	\$ 55,011,238.32
Basic Discretionary Local Effort	0.748	8,124,068.36
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	16,291,580.94
Total	7.313	\$ 79,426,887.62

Duke Energy notified the tax collector that they were contesting the 2012 and 2013 taxable values on their property. Since the amount contested exceeded the tax assessment by more than 6 percent, the District notified the Florida Department of Education (FDOE) in accordance with Section 1011.62(4)(c), Florida Statutes. The FDOE revised the taxable value of the property for FEFP purposes and provided additional State funds of \$4,381,037 and \$10,759,846 for the 2012-13 and 2013-14 fiscal years, respectively. Subsequent to the 2013 tax roll certification on March 24, 2014, a final judgment was made regarding the 2012 and 2013 Duke Energy taxable values. The original 2012 and 2013 taxable value assessments for Duke Energy included in the certified tax rolls for each calendar year were \$2,322,396,772 and \$3,604,673,400, respectively. After the final judgment, the 2012 and 2013 taxable value assessments for Duke Energy were \$1,465,000,000 and \$1,600,000,000, respectively. This resulted in reductions of \$6,539,365.18 and \$14,660,176.57 of local tax collections for the District for the 2012-13 and 2013-14 fiscal years, respectively.

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

M. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 5,784,121.20	\$
Debt Service Funds:		
ARRA Economic Stimulus	496,128.50	
Capital Projects:		
Local Capital Improvement		11,391,036.68
ARRA Economic Stimulus		106.60
Nonmajor Governmental	5,110,896.36	2.78
Total	\$ 11,391,146.06	\$ 11,391,146.06

Interfund transfers represent permanent transfers of moneys between funds. In general, funds are transferred from capital projects funds to the General Fund to reimburse the General Fund for allowable maintenance expenditures, capital-related expenditures, and property and casualty insurance premiums. Transfers from LCIF, Capital Projects – ARRA Economic Stimulus Fund, and nonmajor governmental funds were made into the Debt Service – ARRA Economic Stimulus Fund and nonmajor governmental funds for debt service payments.

IV. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note (Note) in the amount of \$10,000,000. The proceeds will be used for operating expenses for the fiscal year ending June 30, 2015. The closing of the Note took place on October 31, 2014, and the Note matures on April 1, 2015. The interest is calculated at a variable rate equal to 67 percent of the LIBOR Rate plus a spread of 0.65 percent, calculated on the “Interest Rate Determination date.”

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 195,000.00	\$ 204,045.35	\$ 197,882.66	\$ (6,162.69)
Federal Through State and Local State	430,000.00	480,013.47	384,364.00	(95,649.47)
	42,719,854.99	52,452,875.27	52,326,233.60	(126,641.67)
Local:				
Property Taxes	60,681,767.00	51,194,842.64	51,194,842.64	
Miscellaneous	3,503,089.81	4,244,634.09	3,931,256.87	(313,377.22)
Total Local Revenues	<u>64,184,856.81</u>	<u>55,439,476.73</u>	<u>55,126,099.51</u>	<u>(313,377.22)</u>
Total Revenues	<u>107,529,711.80</u>	<u>108,576,410.82</u>	<u>108,034,579.77</u>	<u>(541,831.05)</u>
Expenditures				
Current - Education:				
Instruction	69,778,561.82	71,332,086.26	68,734,504.18	2,597,582.08
Student Personnel Services	4,885,094.22	4,897,212.43	4,856,346.18	40,866.25
Instructional Media Services	1,421,099.37	1,494,306.01	1,479,571.19	14,734.82
Instruction and Curriculum Development Services	1,471,796.54	1,582,613.91	1,482,351.44	100,262.47
Instructional Staff Training Services	586,605.25	615,656.06	558,622.23	57,033.83
Instruction Related Technology	1,458,309.22	1,506,586.50	1,506,585.90	0.60
School Board	551,603.67	560,617.74	552,520.02	8,097.72
General Administration	545,714.68	461,215.94	460,170.08	1,045.86
School Administration	8,645,680.93	8,318,686.77	8,308,586.41	10,100.36
Facilities Acquisition and Construction	383,133.99	428,615.07	428,049.59	565.48
Fiscal Services	766,692.93	801,351.19	784,767.11	16,584.08
Food Services		14,615.39	14,615.39	
Central Services	2,887,370.25	2,928,119.70	2,829,018.93	99,100.77
Student Transportation Services	7,691,492.71	7,589,705.86	7,535,886.03	53,819.83
Operation of Plant	8,651,015.42	8,695,484.45	8,277,743.44	417,741.01
Maintenance of Plant	5,609,880.52	5,654,492.28	3,874,385.77	1,780,106.51
Administrative Technology Services	2,071,222.47	2,019,659.79	1,676,258.22	343,401.57
Community Services	549,509.37	555,020.38	539,252.67	15,767.71
Fixed Capital Outlay:				
Facilities Acquisition and Construction		77,947.77	77,947.77	
Other Capital Outlay		185,867.17	185,867.17	
Total Expenditures	<u>117,954,783.36</u>	<u>119,719,860.67</u>	<u>114,163,049.72</u>	<u>5,556,810.95</u>
Deficiency of Revenues Over Expenditures	<u>(10,425,071.56)</u>	<u>(11,143,449.85)</u>	<u>(6,128,469.95)</u>	<u>5,014,979.90</u>
Other Financing Sources				
Transfers In	8,924,271.00	8,942,346.98	5,784,121.20	(3,158,225.78)
Proceeds from Sale of Capital Assets		199.91	199.91	
Insurance Loss Recoveries	25,836.21	58,519.58	58,519.58	
Total Other Financing Sources	<u>8,950,107.21</u>	<u>9,001,066.47</u>	<u>5,842,840.69</u>	<u>(3,158,225.78)</u>
Net Change in Fund Balances	<u>(1,474,964.35)</u>	<u>(2,142,383.38)</u>	<u>(285,629.26)</u>	<u>1,856,754.12</u>
Fund Balances, Beginning	<u>7,188,496.55</u>	<u>7,188,496.55</u>	<u>7,188,496.55</u>	
Fund Balances, Ending	<u>\$ 5,713,532.20</u>	<u>\$ 5,046,113.17</u>	<u>\$ 6,902,867.29</u>	<u>\$ 1,856,754.12</u>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 1,449,529.00 10,468,839.40	\$ 1,449,529.00 11,869,549.63	\$ 1,041,226.96 9,575,398.14	\$ (408,302.04) (2,294,151.49)	\$ 713,016.34	\$ 740,014.05	\$ 554,771.72	\$ (185,242.33)
<u>11,918,368.40</u>	<u>13,319,078.63</u>	<u>10,616,625.10</u>	<u>(2,702,453.53)</u>	<u>713,016.34</u>	<u>740,014.05</u>	<u>554,771.72</u>	<u>(185,242.33)</u>
4,241,642.41 655,886.51	6,479,800.61 767,235.80	5,223,720.11 642,333.29	1,256,080.50 124,902.51	339,552.64	354,875.51	246,400.87	108,474.64
2,536,571.30 611,835.68	2,883,148.73 1,090,647.69	2,314,500.98 830,918.12	568,647.75 259,729.57	25,226.75 222,773.11 13,241.77	26,806.37 180,125.31 18,659.16	26,806.37 112,899.59 18,659.16	67,225.72
2,501,445.50 7,302.00	627,383.03 7,302.00	487,646.09 7,302.00	139,736.94	28,787.48 12,368.24	29,156.17 12,208.58	23,959.09 11,445.58	5,197.08 763.00
2,000.00 11,685.00	8,698.07 8,791.00	6,323.91 4,257.00	2,374.16 4,534.00	5,313.96	10,812.96	8,192.62	2,620.34
1,350,000.00	1,350,000.00	1,003,551.90	346,448.10	65,752.39	65,427.39	64,465.84	961.55
	<u>96,071.70</u>	<u>96,071.70</u>			<u>41,942.60</u>	<u>41,942.60</u>	
<u>11,918,368.40</u>	<u>13,319,078.63</u>	<u>10,616,625.10</u>	<u>2,702,453.53</u>	<u>713,016.34</u>	<u>740,014.05</u>	<u>554,771.72</u>	<u>185,242.33</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
January 1, 2010	\$ 0	\$ 36,033,256	\$ 36,033,256	0.0%	\$ 63,014,758	57.18%
June 30, 2012	0	37,153,232	37,153,232	0.0%	65,913,203	56.37%
June 30, 2014	0	34,678,407	34,678,407	0.0%	56,702,237	61.16%

Note: (1) The District's OPEB actuarial valuation used the level dollar amortization cost method to estimate the actuarial accrued liability.

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

I. BUDGETARY BASIS OF ACCOUNTING

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

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The June 30, 2014, unfunded actuarial accrued liability of \$34,678,407 was significantly lower than the June 30, 2012, liability of \$37,153,232 as a result of changes in liabilities and costs as discussed below:

- The number of enrolled retirees increased from 214 in the June 30, 2012, valuation to 245 in the June 30, 2014, valuation. However, the number of active employees decreased from 1,802 to 1,544 in the current valuation. The combined effect of these changes was an overall decrease in the costs and liabilities of the OPEB Plan.
- The assumed annual healthcare cost trend for medical and prescription costs was revised. In the previous valuation, the initial healthcare cost trend was assumed to be 6.01 percent in the first year, increasing by 0.3 percent each of the next three years, and then reduced by various decrements, to an ultimate rate of 4.2 percent in 2085. In the current valuation, the trend is assumed to be 5.37 percent in the first year, increasing and decreasing in various increments and decrements each year to an ultimate rate of 4.35 percent in year 2085. This change decreased the costs and liabilities of the OPEB Plan.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	13002	\$ 1,029,972.44
National School Lunch Program	10.555 (2)	13001, 13003	4,200,653.02
Summer Food Service Program for Children	10.559	13006, 13007	52,149.04
Total Child Nutrition Cluster			5,282,774.50
Florida Department of Education:			
Specialty Crop Block Grant Program - Farm Bill	10.170	None	2,059.99
Total United States Department of Agriculture			5,284,834.49
United States Department of Education:			
Direct:			
Federal Pell Grant Program	84.063	N/A	1,003,551.90
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	3,455,665.36
Special Education - Preschool Grants	84.173	267	142,167.85
Total Special Education Cluster			3,597,833.21
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	275,325.39
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	4,312,628.96
Career and Technical Education - Basic Grants to States	84.048	161	297,540.96
Education for Homeless Children and Youth	84.196	127	34,488.19
Rural Education	84.358	110	251,978.54
English Language Acquisition State Grants	84.365	102	35,560.38
Improving Teacher Quality State Grants	84.367	224	760,365.23
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111,RD211,RG311,RG411	554,771.72
Total Indirect			10,120,492.58
Total United States Department of Education			11,124,044.48
United States Department of Commerce:			
Direct:			
Habitat Conservation	11.463	N/A	37,675.06
United States Department of Homeland Security:			
Indirect:			
Florida Department of Education:			
Homeland Security Grant Program	97.067	532	9,677.28
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	56,653.42
Army Junior Reserve Officers Training Corps	None	N/A	67,706.38
Navy Junior Reserve Officers Training Corps	None	N/A	73,522.86
Total United States Department of Defense			197,882.66
Total Expenditures of Federal Awards			\$ 16,654,113.97

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 \$522,413.55 of donated food used 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***

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Citrus County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds, the Citrus High School private purpose trust fund, and the discretely presented component unit, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1, 2, and 3, that we consider collectively to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 20, 2015



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for the Major Federal Program

We have audited the Citrus 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, 2014. The District's major Federal program is identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the fiscal year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 20, 2015

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major program:	
CFDA Number: 84.010	Name of Federal Program or Cluster: Title I Grants to Local Educational Agencies
Dollar threshold used to distinguish between Type A and Type B programs:	\$499,623
Auditee qualified as low-risk auditee?	Yes

**CITRUS COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS

**THE COMBINATION OF FINANCIAL STATEMENT FINDING NOS. 1 THROUGH 3
REPRESENTS A SIGNIFICANT DEFICIENCY**

Finding No. 1: Bank and Investment Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. At June 30, 2014, the District reported cash and cash equivalents totaling \$31.6 million, of which cash in bank totaled \$13.9 million.

During the 2013-14 fiscal year, the District maintained four bank accounts and five investment accounts. The Supervisor of Accounting and Internal Accounts was responsible for preparing bank and investment account reconciliations for all accounts, and the Assistant Superintendent, Business Services, was responsible for reviewing and approving such reconciliations. Our review of controls over District bank and investment account reconciliations disclosed the following:

- District procedures did not provide for an appropriate separation of duties as the Supervisor of Accounting and Internal Accounts prepared all bank and investment account reconciliations and could also update the accounting records. Also, other control processes, such as bank and investment account reconciliation procedures noted in the following bullets, journal entry procedures noted in Finding No. 2, and monthly financial reporting to the Board noted in Finding No. 3, were not sufficient to compensate and mitigate the risk associated with the inappropriate separation of duties.
- District personnel indicated that they prepared 12 monthly bank account reconciliations for the three bank accounts comprising the \$13.9 million reported as cash in bank. According to District personnel, the reconciliations were prepared using on-screen data throughout the fiscal year, typically within 45 to 60 days after month end; however, the electronic spreadsheets used to document this process did not identify the outstanding checks, reconciler(s), reconciliation date(s), or approver(s) of the reconciliations. District personnel also provided other manually prepared bank account reconciliations for these accounts that were appropriately documented; however, these reconciliations were not completed until November 2014, which were from 148 to 445 days following the bank statement dates and subsequent to completion of the annual financial report.
- District records for the fourth bank account, which was a clearing account with a zero balance at June 30, 2014, did not evidence the dates that each of the 12 monthly bank account reconciliations were performed. District personnel indicated that these reconciliations were typically completed and approved within 45 to 60 days after month end but that they did record the reconciliation dates during the fiscal year.

District personnel indicated these deficiencies occurred because the District has been without a director of finance for over 18 months and because of personnel changes in the Finance Department. Our tests indicated that the cash and

cash equivalents accounts were materially correct and properly reported on the financial statements; however, without appropriate separation of bank and investment account reconciliation and recordkeeping duties and records to identify bank account reconcilers, reconciliation dates, and supervisory reviews and approvals, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should enhance its procedures to ensure that duties of bank and investment account reconciliations and recordkeeping responsibilities are appropriately separated; that records identify account reconcilers, reconciliation dates, and supervisory reviews and approvals; and that reconciliations are timely performed.

Finding No. 2: Journal Entries

The Finance Department was responsible for maintaining the District's financial records, including recording account balances and transactions and related financial reporting. During the 2013-14 fiscal year, four employees of the Finance Department and one employee of the Risk Management Department had the ability to prepare, record, and approve journal entries.

Our test of 30 journal entries for the 2013-14 fiscal year disclosed that several individuals, including the Supervisor of Accounting and Internal Accounts, Supervisor of Business Operations, and the Budget Cost Specialist, reviewed and approved 9 of the entries; however, District records did not evidence review and approval of the remaining 21 entries, of which 7 did not document the purpose. We extended our audit procedures and determined that the 7 undocumented entries were primarily to reclassify expenditures, record transactions between funds, and record depreciation expense, and were for appropriate District purposes.

District personnel indicated that certain controls compensated, in part, for the lack of journal entry approval (e.g., department monitoring of respective budgets and related expenditures; electronic funds transfer approval documents; payroll action review and approval documents and related reports; and supervisory monitoring of employee activities). Also, our tests did not disclose any journal entries for unauthorized purposes; however, our tests cannot substitute for management's responsibility to establish effective internal controls. Also, as described in Financial Statement Finding No. 1, the bank and investment account reconciliation processes did not provide controls to compensate for the lack of journal entry review and approval. Absent adequate controls over the journal entry process, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure that journal entries are appropriately documented, and independently reviewed and approved.

Finding No. 3: Financial Monitoring

State Board of Education Rule 6A-1.008, Florida Administrative Code, requires that monthly financial statements (reports) be prepared and submitted to the Board, and Board Policy 7.20 requires that the monthly financial reports include a cumulative report to date of all receipts and expenditures for the fiscal year. District personnel submitted a financial report to the Board at the March 8, 2014, meeting that presented accumulated financial information for the period July 2013 through January 2014; and submitted monthly reports for February through April 2014; however, no other financial reports were provided to the Board during the 2013-14 fiscal year. District personnel indicated that while monthly financial reports were not always submitted timely, the District presented budget amendments to the

Board for approval each month from November 2013 through the end of the fiscal year. However our review of these budget amendments disclosed that they did not include cumulative year-to-date actual expenditures.

Providing the Board with monthly financial reports of practical and understandable summary financial information, such as total revenues and expenditures by fund, projected and revised student enrollment counts and the effects of such revisions, and current anticipated ending fund balance amounts, would enhance the Board's understanding of the District's financial condition and financial decision-making ability, and help avoid financial mismanagement.

Recommendation: The District should enhance its procedures to ensure that monthly financial reports are provided to the Board that include accurate, practical, and understandable summary financial information for monitoring the District's financial condition.

ADDITIONAL MATTERS

Finding No. 4: Background Screenings

Pursuant to Section 1012.32(2)(a), Florida Statutes, instructional and noninstructional personnel must undergo background screenings required under Sections 1012.465 and 1012.56(10), Florida Statutes, whichever is applicable. Also, instructional and noninstructional personnel background rescreenings are required every five years following the initial screening upon employment. During the 2013-14 fiscal year, the District had 1,419 instructional and 1,034 noninstructional personnel.

Board policies require background screenings of personnel upon employment. District personnel indicated that each April the District's fingerprint office clerk obtains a list of employees who will be required to obtain background rescreenings within the next school year from the District's Management Information System Department. The fingerprint office clerk electronically transmits the fingerprints, previously obtained upon employment, of employees identified for rescreening to the Florida Department of Law Enforcement (FDLE), and the FDLE transmits the screening results to the District. Such results are evaluated and filed in a secured electronic database maintained by the District's Human Resources Department.

Our test of 35 personnel (10 instructional and 25 noninstructional) disclosed 6 (17 percent) employees (3 instructional and 3 noninstructional) had not been rescreened within five years, contrary to law. As of the time of our review in June 2014, the background screenings for the 6 personnel were from 9 to 17 months overdue. Given the number of employees identified in our test who did not have the required background screenings, the total number of employees who had not obtained required screenings was not readily available. District personnel indicated that the screening exceptions occurred because of clerical oversights. Subsequent to our inquiry, the District obtained the required background screenings. Without timely background screenings, there is an increased risk that employees with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should strengthen its controls to ensure that required background screenings are timely performed for instructional and noninstructional personnel. The District should also take appropriate action to identify any employees who have not obtained the required background screening, promptly obtain and evaluate background screenings for such employees, and take personnel actions, as necessary, based on evaluations of the screenings.

Finding No. 5: Payroll Processing Procedures

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The District compensates professional technical, such as building inspectors, finance specialists, and school nurses, and hourly personnel on a payroll by exception basis in which employees receive their regular pay each period unless they use more leave than accumulated, resulting in a reduction to their salary, and hourly employees were paid based on documented work time. Supervisors routinely review and approve overtime and extra duty time of these personnel, and the Transportation Department supervisor reviews and approves work time of professional technical and hourly personnel of that Department. However, for other departments, District records did not evidence supervisory review and approval of professional technical or hourly employee work time.

Although our tests did not disclose any instances of incorrect salary payments, when work attendance is not verified of record for all professional technical and hourly personnel, the risk is increased that such personnel may be incorrectly compensated and employee leave balances may be inaccurate.

Recommendation: **The District should implement procedures to ensure documented supervisory review and approval of all professional technical and hourly personnel work time.**

Finding No. 6: Health Insurance Plan – Participant Eligibility

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute from \$340 to \$355 per month for each full-time employee toward the cost of the health self-insured insurance program and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and depositing the proceeds in the health self-insurance account. Employees may enroll in the District's health insurance plan upon employment, during open enrollment periods, and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. For the 2013-14 fiscal year, 1,861 employees contributed a total of \$6.1 million and 245 retirees contributed a total of \$1.5 million to participate in the District's health insurance plan, and the District contributed \$6.9 million toward the plan. Also, 993 dependents participated in the health insurance plan.

District personnel reconciled health insurance billings to payroll records to ensure that insurance billings were only for eligible employees or retirees. The District required documentation for certain dependent changes outside of open enrollment periods for qualifying events such as marriage and a loss of spousal coverage; however, the District did not require documentation to evidence dependent eligibility such as birth certificates for other qualifying events outside of open enrollment. Also, upon employment and during open enrollment, the District did not require employees or retirees purchasing health insurance for their dependents to provide documentation evidencing dependent eligibility. Without verifying the eligibility of dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Although employees and retirees are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the District for employees' healthcare coverage.

Recommendation: The District should enhance procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 7: Workforce Education Programs – Accumulation of Unspent Appropriations

Pursuant to Section 1011.80, Florida Statutes, the District receives funding for workforce education programs and is required to use the money to benefit such programs. During the 2013-14 fiscal year, the District received \$4,022,395 in workforce education program revenues for its adult education program. This revenue, when combined with \$3,036,075 of unspent workforce education revenues designated to the adult education program in prior fiscal years, made available \$7,058,470 for expenditures in the adult education program during the 2013-14 fiscal year. Workforce education revenues expended in the adult education program totaled \$3,591,681, or 51 percent of that available during the 2013-14 fiscal year, and the unencumbered balance carried forward into the 2014-15 fiscal year totaled \$3,466,789.

District records indicated that workforce education revenues exceeded expenditures by increasing amounts over the last four fiscal years, with an average accumulation of approximately \$625,817 per year. In response to our inquiries, District personnel indicated that unspent workforce education funds would be used to upgrade the workforce education program equipment and the facility used by the program; however, the Board had not adopted a formal plan establishing the goals and priorities for the use of unspent workforce education funds. Although the workforce education funds are restricted for adult education purposes and not subject to reversion, carrying forward large balances of such funds into subsequent years does not appear to be consistent with the legislative intent for annually funding the adult education program and does not appear to benefit the persons and programs for which the funds were generated.

Recommendation: The Board should develop a spending plan for unspent workforce education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on programs as intended by the Legislature.

Finding No. 8: Workforce Education Programs – Financial Reporting

In addition to funding received pursuant to Section 1011.80, Florida Statutes, the District is authorized to charge fees to students enrolled in these programs pursuant to Section 1009.22, Florida Statutes. Also, beginning with the 2009-10 fiscal year General Appropriation Act (Chapter 2009-81, Laws of Florida, Specific Appropriation 111) and included within each subsequent act through the 2013-14 fiscal year General Appropriation Act (Chapter 2013-40, Laws of Florida, Specific Appropriation 117), use of fees generated by workforce education programs is limited to those programs and cannot support K-12 programs or K-12 administrative indirect costs. In addition, pursuant to generally accepted accounting principles, restricted fund balance represents resources that have externally imposed constraints by creditors, grantors, or laws that require use of the resources for specific purposes.

As noted in Finding No. 7, the unencumbered balance carried forward of workforce education program funds into the 2014-15 fiscal year totaled \$3,466,789. Of that amount, the District reported unspent student fees of \$2,022,910 as unrestricted fund balance at June 30, 2014, on the District's 2013-14 fiscal year annual financial report. District personnel indicated that the unspent workforce education program fund fees were reported as unrestricted because Section 1011.80, Florida Statutes, did not restrict use of locally generated fees. However, given the requirements set forth in law, workforce education program locally-generated fees beginning with the 2009-10 fiscal year must be restricted for program use.

Subsequent to our inquiry, the District identified indirect costs totaling \$547,981 based on workforce education program activities occurring from July 2012 to June 2014 that the District had not assessed against the program. Also, District personnel identified \$3,392,343 of fee revenues that were earned from 2005-06 fiscal year to the 2008-09 fiscal year, prior to the fees becoming restricted, that may be reported as unrestricted fund balance to the extent that these resources remain unspent. However, District records did not account for the unspent program student fees by fiscal year and, as such, did not evidence the appropriateness of reporting the \$2,022,910 as unrestricted fund balance at June 30, 2014.

Recommendation: To provide a basis for fund balance classifications of workforce development program funds unspent at fiscal year-end, and to demonstrate compliance with legal restrictions relating to the use of such funds, the District should separately account for the receipt, expenditure, and accumulated balances of workforce education program fees by respective fiscal year. The District should also contact the Florida Department of Education to determine the extent to which unspent program student fees are subject to legal restrictions.

Finding No. 9: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; purchases of new and replacement equipment; certain enterprise resource software, classified as capital assets in accordance with the definitions of the Governmental Accounting Standards Board (GASB) and used to support Districtwide administration or State-mandated reporting requirements; and property and casualty insurance premiums to insure educational and ancillary plants subject to certain conditions and limitations. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2013-14 fiscal year, the District had LCI Fund expenditures totaling \$7,936,440, and transfers totaling \$5,784,121 to the General Fund. While our tests disclosed that ad valorem tax proceeds were generally used as required, we noted that:

- The District used \$36,167 of ad valorem tax levy proceeds to pay 95 percent of the Energy System and Plans Room Manager's salary and benefits. The job description for this employee indicated that the employee was responsible for certain duties that do not appear to be authorized by Section 1011.71, Florida Statutes, such as maintaining energy management system settings, reviewing and controlling the District Plans room information, and reviewing and controlling the District's Key/ID badge database. District records for this employee, such as personnel activity reports, were not maintained to evidence that at least 95 percent of activities performed by this employee represented allowable uses of ad valorem tax levy proceeds.
- The District used \$28,300 of ad valorem tax levy proceeds for the purchase of various software applications (apps). As these apps were not capitalized by the District nor met the GASB definition of a capital asset, these costs do not represent an allowable use of ad valorem tax levy proceeds.

These payments, totaling \$64,467, represent questioned costs of ad valorem tax levy proceeds. Without adequate controls to ensure that ad valorem tax levy proceeds are expended for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions.

Recommendation: The District should enhance controls to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. The District should also document to the Florida Department of Education the allowability of the \$64,467 of questioned costs or restore this amount to the LCI Fund.

Finding No. 10: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the District requires new vendors to complete a vendor application, including an Internal Revenue Service form that identifies the vendor names and official business names. This information is used to identify owners and officers of vendors per the State Division of Corporation Web site, which is compared to the District's human resource database to identify potential conflicts of interest.

The Superintendent, Board members, Assistant Superintendents, Executive Director of Educational Services, and Supervisor of Accounting & Internal Accounts were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While the statements of financial interests were filed as required, the statements were not provided to personnel responsible for procurement decisions for review. Providing for routine review and consideration of required statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questionable procurement transactions or contractual obligations.

Recommendation: **The District should provide for the routine review of required statements of financial interests by personnel responsible for making procurement decisions.**

Finding No. 11: Virtual Instruction Program Policies and Procedures

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

The District contracted with the Seminole County District School Board (Seminole DSB) to administer certain aspects of the VIP. During the 2013-14 fiscal year, the District had 17 students enrolled full-time and 56 students enrolled part-time in the District's VIP. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established comprehensive, written VIP policies and procedures. Comprehensive, written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of written VIP policies and procedures may have contributed to the following instances of noncompliance and control deficiencies:

- Section 1002.45(10), Florida Statutes, requires that school districts provide information to parents and students about their right to participate in a VIP. Further, Section 1002.45(1)(b), Florida Statutes, requires school districts to provide parents with timely, written notification of open enrollment periods for their VIPs. The District used various means to communicate the availability of the VIP, including parent and education guides and school progression plans, presentations made during school open houses, the issuance of a press release, and the distribution of VIP flyers to students. While these methods indicate efforts by the District to communicate with parents and students about the VIP for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents of students. Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.

- Section 1002.45(1)(b), Florida Statutes, requires that the District, because it is located in a sparsely-populated county eligible for special funding pursuant to Section 1011.62(7), Florida Statutes, to provide students the option of participating in part-time and full-time VIPs. Although the District provided all students the opportunity to participate in full-time virtual instruction and students in grades 6 through 12 the opportunity to participate in part-time virtual instruction, the District did not provide students in grades kindergarten through 5 the opportunity to participate in part-time virtual instruction. District personnel indicated that while no students from this grade span participated on a part-time basis, the option was still offered. However, we noted that the District's student progression plans stated that only students in grades 9 through 12 could participate on a part-time basis. Without providing the required option, the District limited student access to the part-time virtual instruction types, contrary to Section 1002.45(1)(b), Florida Statutes.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should include appropriate action to remedy the noncompliance and control deficiencies identified above.

Finding No. 12: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

The District had not developed procedures for performing reviews of access privileges for employees within the District's finance and human resource (HR) applications. Our review of selected access privileges to these applications disclosed some access privileges that were unnecessary or that permitted certain employees to perform incompatible functions. Specifically:

- One Finance Department employee could create and edit a vendor, approve a purchase order, create an invoice, and process an invoice for payment, contrary to an appropriate separation of duties. Another Finance Department employee could create journal entries and approve journal entries, which were unnecessary functions for the employee's job duties.
- One HR employee could create an invoice, process an invoice for payment, create journal entries, and approve journal entries, which were unnecessary functions for the employee's job duties.
- Two teachers could approve purchase orders, which were unnecessary functions for their job duties.
- One vendor that provided educational services for the Juvenile Correction Center could approve purchase orders for the Center.

Subsequent to our inquiry, the inappropriate access privileges noted above were removed. Although the District had certain controls (e.g. supervisory monitoring of expenditures and all purchase orders must contain the signature of the Supervisor of Accounting and Internal Accounts) to compensate, in part, for the deficiencies, the existence of these inappropriate and unnecessary access privileges indicated a need for the District to perform a review of access privileges within the finance application and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should perform a review of IT access privileges and remove any unnecessary or inappropriate access privileges detected.

Finding No. 13: Information Technology – Security Controls – Application and Network Security

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

Without adequate security controls related to user authentication and network security, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings related to network security were communicated to District management in connection with our report Nos. 2013-164 and 2014-137.

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-137, except that finding No. 13 was also noted in prior audit report Nos. 2013-164 and 2014-137 as finding Nos. 5 and 2, respectively.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*CITRUS COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014*

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
2014-137		There were no prior Federal audit findings.		

**EXHIBIT A
MANAGEMENT’S RESPONSE**



SANDRA “SAM” HIMMEL – SUPERINTENDENT OF SCHOOLS

*“Where Learning is the Expectation
And Caring is a Commitment”*

THOMAS KENNEDY
DISTRICT 1

VIRGINIA BRYANT
DISTRICT 2

DOUGLAS A. DODD
DISTRICT 3

SANDRA BALFOUR
DISTRICT 4

LINDA B. POWERS
DISTRICT 5

March 19, 2015

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

Re: Citrus County School District Audit Response for the Fiscal Year Ended June 30, 2014

Dear Mr. Martin:

Please find below the response and corrective action on the preliminary and tentative findings for the financial, operational and Federal audit of the Citrus County School District for the Year Ended June 30, 2014.

Finding No. 1: Bank and Investment Account Reconciliations

The District acknowledges that controls need to be strengthened over bank and investment reconciliations. Although the reconciliations were completed during the fiscal year, they were not always adequately documented. Also, because of recent turnover in the Finance Department, there were several vacancies (such as the Director of Finance position) that lead to inadequate separation of duties control deficiencies. Currently, all vacancies, except the Director of Finance position, have been filled and that position will hopefully be filled soon. With all vacancies filled, we will ensure that the account reconciliation and recordkeeping responsibilities are properly separated. In addition, procedures have been enhanced to ensure that all bank and investment account reconciliations are prepared, timely approved, and properly documented.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 2: Journal Entries

The District acknowledges that controls need to be strengthened over journal entries. The addition of staff in the Finance Department will allow us to enhance procedures to ensure that all journal entries are adequately documented and independently reviewed and approved.

Finding No. 3: Financial Monitoring

The District acknowledges that official financial reports need to be prepared and provided to the Board for proper monitoring of the District's financial condition.

Although the Board was kept abreast of the financial condition of the District through other means, such as budget amendments, updates, and a financial condition forecast each month, the need to provide monthly financial reports is understood. Once again, additional Finance Department staff should allow us to enhance procedures to ensure that adequate monthly financial reports are provided to the Board.

Finding No. 4: Background Screenings

The District acknowledges the need to enhance controls to ensure that required background screenings are performed. Since the District discovered this issue, a series of safeguards have been instituted to ensure this does not occur in the future. Staff responsibilities have been clearly identified and five-year reviews of employee fingerprint resubmissions are now completed monthly instead of in April. Additionally, we will obtain an active employee list quarterly, confirm dates of last background screenings, and perform rescreenings for applicable employees as required.

Finding No. 5: Payroll Processing Procedures

The District acknowledges the payroll procedures should be enhanced to ensure proper documentation of supervisory review. The District will implement a process to address this issue with supervisory approval of professional technical and hourly personnel.

Finding No. 6: Health Insurance Plan- Participant Eligibility

The District acknowledges the need to enhance procedures to require verification of eligibility of dependents. The below documentation is now required when enrolling dependents in the District's health plan whether as a new hire, during open enrollment, or when making mid-year changes to benefits:

- Verification of dependents and spouse, if any
- Change in Marital Status – marriage certificate or divorce decree
- Birth of a Child – copy of birth certificate
- Adoption of a Child – copy of adoption papers
- Death of a Dependent – copy of death certificate

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

- Change of Spouse's employment – copy of Certificate of Creditable Coverage
- Entitlement to Medicare or Medicaid – copy of Medicare card or copy of Medicaid eligibility letter
- Stepchildren – documentation of relationship , ex: marriage certificate along with birth certificate of child

Finding No. 7: Workforce Education Programs- Accumulation of Unspent Appropriations

The District acknowledges the accumulation of workforce appropriations and will create a plan to expend these appropriations to address one-time, non-recurring expenditures to enhance the workforce education program.

Finding No. 8: Workforce Education Programs-Financial Reporting

The reporting of unspent Workforce Education program funds as unrestricted was based on the District understanding of Section 1011.80, Florida Statutes. As staff was unaware and had never been informed prior to this year of the change in the General Appropriation Act that occurred in the 2009-10 fiscal year, such funds were classified as unrestricted. The District acknowledges from this point forward that the appropriate classification of workforce education program funds will be reported as restricted beginning with the 2014-15 fiscal year. Furthermore, the District will consult with the Florida Department of Education to determine what, if anything, needs to be done with previous fiscal year funds.

Finding No. 9: Ad Valorem Taxation

The District acknowledges the questioned use of LCI funds. Current controls in place for LCI fund transfers will be enhanced to ensure only allowable costs are reimbursed in the future.

Finding No. 10: Purchasing Procedures

The District acknowledges the finding related to purchasing procedures. A process will be put in place within purchasing to review said financial disclosures to reduce any risk of procurement or contractual obligations conflicts.

Finding No. 11: Virtual Instruction Program Policies and Procedures

Citrus County School Board provides options to students who choose to participate in a virtual instruction program (VIP) as required by Florida Statute 1001.41(3). To meet this requirement, the District contracted with Seminole County District School Board (SCSB) for the management and delivery of VIP to all eligible students in Citrus County as allowed by Section 1002.45(1)(c)(3), Florida Statutes.

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

Since Citrus County School Board contracts with SCSB for VIP, our District relied on the VIP policies and procedures developed by SCSB. However as brought to our attention by your audit, our District does maintain some responsibility for certain requirements of the program. Therefore, comprehensive, written VIP policies and procedures will be developed which cover applicable operations and activities.

Additionally, Citrus County District School Board has initiated procedures to inform parents about their right to participate in VIP, including timely, written notification for open enrollment. The District has also revised policies and procedures to ensure part-time and full-time options are available for all eligible students in grades K to 12.

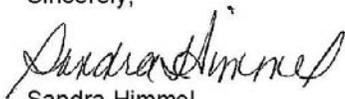
Finding No. 12: Information Technology- Access Privileges

The District acknowledges the need to review the access privileges within the HR and Finance module of Skyward (the District's ERP system). The IT Department along with the HR and Finance departments, will review access on a semiannual basis, as well as stay informed of changes throughout the year, to address any ongoing changes.

Finding No. 13: Information Technology- Security Controls- Application and Network Security

The District acknowledges the control issue and has already taken action to correct.

Sincerely,



Sandra Himmel
Superintendent