

**CHARLOTTE COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2013



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Lee Swift, Chair from 11-20-12	1
Alleen Miller	2
Andrea Messina to 11-19-12, Chair	3
Robert Segur from 11-20-12	3
Ian Vincent, Vice Chair	4
Barbara Rendell	5

Dr. Douglas K. Whitaker, Superintendent

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

The audit team leader was William D. Foster, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. For the information technology portion of this audit, the audit team leader was Vikki S. Mathews, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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

CHARLOTTE COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: Financial reporting procedures could be improved to ensure that fund balance is properly classified.

Finding No. 2: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 3: Controls over transportation inventories could be enhanced.

Finding No. 4: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 5: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes, resulting in \$425,490.15 of questioned costs.

Finding No. 6: 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. 7: VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Finding No. 8: The District had not established procedures to document that VIP students received necessary VIP instructional materials. In addition, procedures needed to be enhanced to ensure that VIP students and their parents are notified about the availability of computing resources and that qualified VIP students are provided computing resources.

Finding No. 9: District records did not evidence that required timely written notifications were provided to parents about student opportunities to participate in VIPs and the dates of the open enrollment periods.

Finding No. 10: District records did not evidence that required background screenings were performed for VIP employees and contracted personnel.

Finding No. 11: The District's procedures did not always require written documented verification that VIP students complied with compulsory attendance requirements.

Finding No. 12: District information technology security controls related to user authentication and logging and monitoring of system activity needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Race-to-the-Top, and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: District procedures for reporting Race-to-the-Top program expenditures needed improvement.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in previous audit reports.

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

Audit Methodology

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



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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 Charlotte County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 11 percent of the assets and 42 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the 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 Charlotte County District School Board as of June 30, 2013, 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 Matters

As discussed in note II to the financial statements, the District adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 65.

As discussed in note II to the financial statements, the District changed the funds in which it reports American Recovery and Reinvestment Act debt service and capital projects financial information for the 2012-13 fiscal year.

These matters affect the comparability of amounts reported for the 2012-13 fiscal year with amounts reported for the 2011-12 fiscal year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Charlotte County has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements found on pages 14 through 28.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year are as follows:

- The assets of the District exceeded its liabilities at June 30, 2013 by \$431,229,255.76.
- The District's total net position increased by \$1,267,358.96, or 0.3 percent, over the 2011-12 fiscal year.
- General revenues total \$145,648,259.33, or 93.4 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$10,284,393.90 or 6.6 percent.
- Expenses total \$154,665,294.27. Only \$10,284,393.90 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$10,827,902.77, which is \$2,082,892.14 more than the prior fiscal year balance. The General Fund unassigned fund balance was \$10,428,933.30, or 9.2 percent of total General Fund revenues.
- Total debt decreased by \$449,130.60, or 0.7 percent, due to scheduled long-term debt payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the 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 presents information on all of the District's assets and liabilities. Assets less liabilities are reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

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

Governmental activities – This represents most of the District’s services including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the state’s education finance program provide most of the resources that support these activities.

Component units – The District presents two separate legal entities in this report which are the Charlotte School Board Leasing Corporation and the Charlotte Local Education Foundation, Inc. These entities meet the criteria for inclusion provided by generally accepted accounting principles.

Over a period of time, changes in the District’s net position are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other non-financial factors, such as changes in the District’s property tax base, student enrollment, and the condition of the District’s capital assets including its school buildings and administrative facilities.

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District’s most significant funds. The District’s major funds are the General Fund, Special Revenue – Federal Economic Stimulus Funds, Special Revenue Fund – Other Federal Programs, Debt Service – Federal Economic Stimulus Fund, Capital Projects – Local Improvement Fund, and Capital Projects - Federal Economic Stimulus Fund. Data from 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 Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. 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 an internal service funds to account for the Employee Benefits Fund and the Special Projects Consortium. Since these services predominately benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The internal service funds are combined into a single, aggregated column in the proprietary fund 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 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 may serve over time as a useful indicator of the District’s financial position. The following is a summary of the District’s net position as of June 30, 2013, compared to net position as of June 30, 2012.

	Net Position, End of Year	
	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 60,216,399.32	\$ 64,620,350.03
Capital Assets	457,393,034.75	453,829,316.75
Total Assets	517,609,434.07	518,449,666.78
Long-Term Liabilities	80,972,044.54	81,620,275.77
Other Liabilities	5,408,133.77	6,857,463.73
Total Liabilities	86,380,178.31	88,477,739.50
Net Position:		
Net Investment in Capital Assets	389,072,872.49	389,713,082.18
Restricted	31,782,679.67	30,794,409.19
Unrestricted	10,373,703.60	9,464,435.91
Total Net Position	\$ 431,229,255.76	\$ 429,971,927.28

The largest portion of the District’s net position (90.2 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. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District’s net position (7.4 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (2.4 percent) may be used to meet the District’s on-going obligations to students, employees, and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position for the government as a whole, and for its separate governmental activities. Positive balances were similarly reported for the prior fiscal year.

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

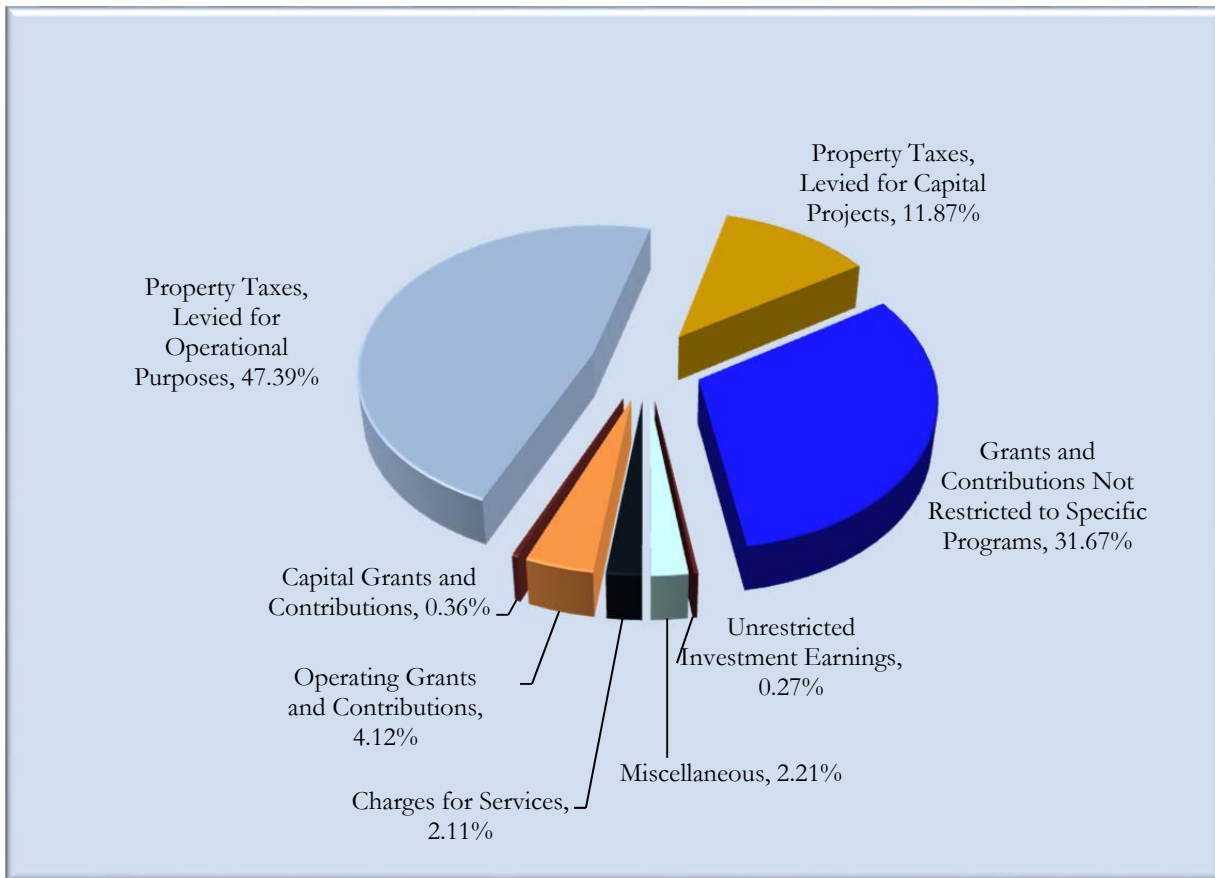
	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-13	6-30-12
Program Revenues:		
Charges for Services	\$ 3,297,281.61	\$ 3,267,560.67
Operating Grants and Contributions	6,418,043.03	6,177,564.23
Capital Grants and Contributions	569,069.26	573,659.18
General Revenues:		
Property Taxes, Levied for Operational Purposes	73,883,996.40	76,102,821.47
Property Taxes, Levied for Capital Projects	18,510,557.99	19,575,469.19
Grants and Contributions Not Restricted to Specific Programs	49,385,682.87	44,896,604.80
Unrestricted Investment Earnings	418,609.94	222,680.65
Miscellaneous	3,449,412.13	2,743,058.65
Total Revenues	155,932,653.23	153,559,418.84
Functions/Program Expenses:		
Instruction	75,457,847.00	78,304,040.68
Pupil Personnel Services	7,146,115.43	8,073,075.66
Instructional Media Services	1,266,247.57	1,559,514.88
Instruction and Curriculum Development Services	5,354,171.51	5,948,478.54
Instructional Staff Training Services	2,659,816.73	2,694,995.98
Instruction Related Technology	787,579.33	604,753.94
School Board	682,881.86	780,327.72
General Administration	705,443.61	683,557.11
School Administration	8,526,359.48	8,281,694.78
Facilities Acquisition and Construction	2,274,925.48	4,417,030.27
Fiscal Services	888,050.79	989,029.29
Food Services	8,371,823.63	8,285,637.09
Central Services	8,336.49	154,397.36
Pupil Transportation Services	5,926,258.52	6,175,093.86
Operation of Plant	11,274,406.35	11,403,088.43
Maintenance of Plant	3,667,530.64	3,591,017.88
Administrative Technology Services	1,419,974.28	1,283,385.42
Community Services	105,243.79	151,018.84
Unallocated Interest on Long-Term Debt	3,667,505.89	3,632,265.18
Unallocated Depreciation Expense	14,474,775.89	13,352,069.37
Total Functions/Program Expenses	154,665,294.27	160,364,472.28
Change in Net Position	1,267,358.96	(6,805,053.44)
Net Position - Beginning	429,971,927.28	436,776,980.72
Adjustment to Beginning Net Position	(10,030.48)	
Net Position - Beginning, Restated	429,961,896.80	436,776,980.72
Net Position - Ending	\$ 431,229,255.76	\$ 429,971,927.28

Governmental activities increased the District’s net position by \$1,267,358.96. Key elements for this change are as follows:

- The largest revenue source is property taxes, which decreased by \$3,283,736.27, or 3.4 percent, as a result of a decrease in taxable assessed values, partially offset by a 2 percent increase in the total millage rate.
- A significant revenue source is the State of Florida (22 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.
- Grants and contributions not restricted to specific program revenues increased by \$4,489,078.07, or 10 percent, primarily due to an increase in Federal through State and miscellaneous revenue sources. Operating grants and contributions revenues increased by \$240,478.80, or 3.9 percent, primarily due to increased student participation.
- Instruction expenses represent 45.8 percent of total government expenses for the 2012-13 fiscal year. Instruction expenses decreased by \$2,846,193.68, or 3.6 percent, from the previous fiscal year due mainly from a reduction in staffing levels, resulting in a decrease in salaries and related benefits.

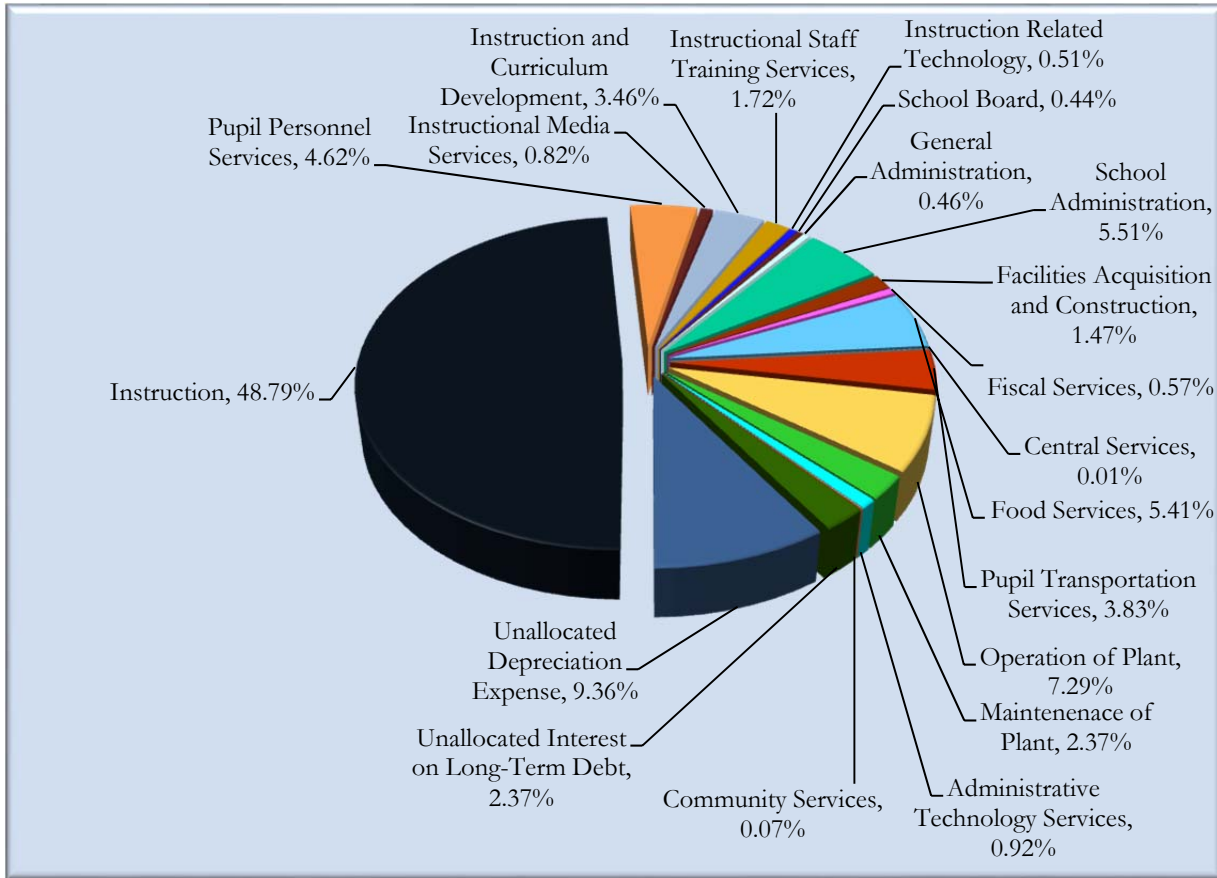
The following graph shows total revenues by source:

Total Revenues by Source



The following graph shows total expenditures by source:

Total Expenditures by Source



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

The total fund balances of governmental funds decreased by \$5,972,986.66 during the fiscal year to \$44,147,654.96 at June 30, 2013. Approximately 23.6 percent of this amount is unassigned fund balance (\$10,428,933.30), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$533,557.79), 2) restricted for particular purposes (\$31,039,515.43), or 4) assigned for particular purposes (\$2,145,648.44).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$10,428,933.30, while the total fund balance is \$10,827,902.77. As a measure of the General Fund's liquidity, it may be useful to compare the total unassigned fund balance to General Fund total revenues. The total unassigned fund

balance is approximately 9.2 percent of the total General Fund revenues while total fund balance represents approximately 9.6 percent of total General Fund revenues.

The total fund balance increased by \$2,082,892.14 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Decreases in the local property tax rate and property values resulted in decreased tax revenues of \$2,218,825.07, offset by an increase in State revenues of \$4,738,811.91 due to an increase in FEFP per student funding.
- Total expenditures decreased by 4,521,828.55, or 3.7 percent, due mainly to a decrease in staff and other cost containment measures (e.g. reducing supplies expenditures, limiting travel, etc.) implemented by the District.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$425,329.77 each, and the funding was mainly used for instruction and instruction related services. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Activity in this fund decreased substantially due to a reduction of Federal Stimulus program funding.

The Special Revenue – Other Federal Programs Fund has total revenues and expenditures of \$10,955,911.74 each, and the funding was mainly used for instruction and instruction related services. Because grant revenues and expenditures in this fund are recognized as mentioned in the previous paragraph, this fund generally does not accumulate a fund balance. Activity in this fund did not significantly change from the prior fiscal year.

The Debt Service – Federal Economic Stimulus Fund has a total fund balance of \$10,618,944.52. This fund is restricted for the accumulation of resources for, and the payment of, debt principal, interest, and related costs on the Qualified School Construction Bonds. The fund balance increased in the current fiscal year due to scheduled sinking fund deposits.

The Capital Projects – Local Capital Improvement Fund and Capital Projects - Federal Economic Stimulus Fund have total fund balances of \$16,995,376.60 and zero, respectively. These funds are restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balances, \$15,140,309 has been encumbered for specific projects. The fund balances decreased in the current fiscal year due to the completion of a new high school and renovations of various facilities.

Proprietary Funds

The District's proprietary funds provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the Employee Self-Insurance Fund increased by \$2,914,301.14 during the 2012-13 fiscal year to \$9,539,710.28 at June 30, 2013. This increase occurred primarily because premium revenues increased, while operating expenses decreased.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2012-13 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$1,214,359, or 1.1 percent. At the same time, final appropriations are less than the original budgeted amounts by \$850,365.53. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues exceed the final budgeted amounts by \$792,008.18, while actual expenditures are \$2,766,192.98, or 2.3 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost

containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$3,576,437.61.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, is \$457,393,034.75 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual and computer software. The total increase in capital assets for the current fiscal year was approximately 0.8 percent.

Major capital asset events included the following:

- As part of the hurricane recovery process, the District completed rebuilding projects with reconstruction of the warehouse and maintenance facilities.
- The first four phases to the Lemon Bay High School construction plans are complete, and the final phases are under construction.
- Under District policy, school buses are replaced every 13 years. The total cost of new buses for the current fiscal year totaled \$595,508.

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

Long-term Debt

At June 30, 2013, the District has total long-term debt outstanding of \$67,628,535.82, comprised of \$5,000,000 of qualified zone academy bonds payable, \$60,000,000 of qualified school construction bonds payable, and \$2,628,535.82 of bonds payable. During the current fiscal year, retirement of debt was \$449,130.60.

The District's bonds outstanding at June 30, 2013, totaling \$2,628,535.82, are secured by the State Board of Education, which 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.

Additional information on the District's long-term debt are in note III.I to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The latest enrollment projections for the District indicate a decrease of 266 students during the 2013-14 fiscal year, which will decrease State revenue to some extent.

Employer contributions to the Florida Retirement System increased for regular employees from 5.18 to 6.95 percent of payroll for the 2013-14 fiscal year.

Housing prices are expected to increase the taxable assessed value for the 2013-14 fiscal year.

For the 2013-14 fiscal year, the District anticipates an overall increase in General Fund revenues of approximately \$4.7 million, due mainly to increases in the FEFP calculation and increases in tax levies associated with higher assessed taxable property values.

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Charlotte County Public Schools, Finance Department, 1445 Education Way, Port Charlotte, FL 33948.

BASIC FINANCIAL STATEMENTS

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

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Unit</u>
ASSETS		
Cash and Cash Equivalents	\$ 43,345,370.99	\$ 104,380.00
Investments	607,002.14	
Accounts Receivable	144,539.76	9,275.00
Due from Other Agencies	3,335,705.61	
Prepaid Items	28,355.00	770,704.00
Inventories	505,202.79	7,300.00
Restricted Investments	12,250,223.03	
Capital Assets:		
Nondepreciable Capital Assets	19,059,613.09	
Depreciable Capital Assets, Net	438,333,421.66	
TOTAL ASSETS	<u>517,609,434.07</u>	<u>891,659.00</u>
LIABILITIES		
Salaries and Benefits Payable	668,800.40	
Payroll Deductions and Withholdings	820,323.43	
Accounts Payable	2,430,338.43	9,227.00
Construction Contracts Payable - Retainage	226,961.34	
Deposits Payable	114,908.72	
Unearned Revenue	1,000,278.45	
Accrued Interest Payable	146,523.00	
Long-Term Liabilities:		
Portion Due Within One Year	1,966,493.18	
Portion Due After One Year	79,005,551.36	
TOTAL LIABILITIES	<u>86,380,178.31</u>	<u>9,227.00</u>
NET POSITION		
Net Investment in Capital Assets	389,072,872.49	
Restricted for:		
State Required Carryover Programs	144,715.48	
Debt Service	12,177,225.12	
Capital Projects	17,612,358.31	
Food Service	1,848,380.76	
Other Purposes		881,246.00
Unrestricted	10,373,703.60	1,186.00
TOTAL NET POSITION	<u>\$ 431,229,255.76</u>	<u>\$ 882,432.00</u>

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 75,457,847.00	\$ 800,834.64	\$	\$
Pupil Personnel Services	7,146,115.43			
Instructional Media Services	1,266,247.57			
Instruction and Curriculum Development Services	5,354,171.51			
Instructional Staff Training Services	2,659,816.73			
Instruction Related Technology	787,579.33			
School Board	682,881.86			
General Administration	705,443.61			
School Administration	8,526,359.48			
Facilities Acquisition and Construction	2,274,925.48			
Fiscal Services	888,050.79			
Food Services	8,371,823.63	2,267,797.88	6,418,043.03	
Central Services	8,336.49			
Pupil Transportation Services	5,926,258.52	228,649.09		
Operation of Plant	11,274,406.35			
Maintenance of Plant	3,667,530.64			
Administrative Technology Services	1,419,974.28			
Community Services	105,243.79			
Unallocated Interest on Long-Term Debt	3,667,505.89			569,069.26
Unallocated Depreciation Expense*	14,474,775.89			
Total Primary Government	\$ 154,665,294.27	\$ 3,297,281.61	\$ 6,418,043.03	\$ 569,069.26
Component Unit				
Charlotte Local Education Foundation, Inc.	\$ 250,761.00	\$	\$	\$

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, Restated

Net Position - Ending

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

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

<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
\$ (74,657,012.36)	\$
(7,146,115.43)	
(1,266,247.57)	
(5,354,171.51)	
(2,659,816.73)	
(787,579.33)	
(682,881.86)	
(705,443.61)	
(8,526,359.48)	
(2,274,925.48)	
(888,050.79)	
314,017.28	
(8,336.49)	
(5,697,609.43)	
(11,274,406.35)	
(3,667,530.64)	
(1,419,974.28)	
(105,243.79)	
(3,098,436.63)	
(14,474,775.89)	
<u>(144,380,900.37)</u>	
	<u>(250,761.00)</u>
73,883,996.40	
18,510,557.99	
49,385,682.87	293,359.00
418,609.94	174.00
<u>3,449,412.13</u>	
<u>145,648,259.33</u>	<u>293,533.00</u>
1,267,358.96	42,772.00
429,971,927.28	
(10,030.48)	
<u>429,961,896.80</u>	<u>839,660.00</u>
<u>\$ 431,229,255.76</u>	<u>\$ 882,432.00</u>

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Federal Programs	Debt Service - Federal Economic Stimulus Fund
ASSETS				
Cash and Cash Equivalents	\$ 9,447,282.43	\$	\$	\$ 985.74
Investments	169,777.47			
Accounts Receivable	56,351.55			
Due from Other Funds	372,426.04			
Due from Other Agencies	2,230,886.28	9,807.53	478,902.17	
Prepaid Items	28,355.00			
Inventories	225,898.99			
Restricted Investments				10,617,958.78
TOTAL ASSETS	\$ 12,530,977.76	\$ 9,807.53	\$ 478,902.17	\$ 10,618,944.52
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 576,099.21	\$ 1,325.79	\$ 56,991.07	\$
Payroll Deductions and Withholdings	678,953.01	4,697.44	95,327.88	
Accounts Payable	448,022.77	2,892.70	35,296.58	
Construction Contracts Payable - Retainage				
Due to Other Funds		891.60	291,286.64	
Deposits Payable				
Total Liabilities	1,703,074.99	9,807.53	478,902.17	
Fund Balances:				
Nonspendable:				
Inventories	225,898.99			
Prepaid Items	28,355.00			
Total Nonspendable Fund Balance	254,253.99			
Restricted for:				
State Required Carryover Programs	144,715.48			
Debt Service				10,618,944.52
Capital Projects				
Food Service				
Total Restricted Fund Balance	144,715.48			10,618,944.52
Assigned for Disaster Recovery				
Unassigned Fund Balance	10,428,933.30			
Total Fund Balances	10,827,902.77			10,618,944.52
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,530,977.76	\$ 9,807.53	\$ 478,902.17	\$ 10,618,944.52

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

Capital Projects - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$ 18,151,142.24	\$ 3,153,155.68	\$ 30,752,566.09
	335,338.93	101,885.74	607,002.14
		7,940.41	64,291.96
		615,752.82	988,178.86
	544,563.88	71,545.75	3,335,705.61
			28,355.00
		279,303.80	505,202.79
		1,632,264.25	12,250,223.03
\$	\$ 19,031,045.05	\$ 5,861,848.45	\$ 48,531,525.48
\$	\$ 4,318.31	\$ 28,333.54	\$ 667,067.92
	8,102.42	28,501.85	815,582.60
	1,796,286.38	17,878.00	2,300,376.43
	226,961.34		226,961.34
			292,178.24
		81,703.99	81,703.99
	2,035,668.45	156,417.38	4,383,870.52
		279,303.80	505,202.79
			28,355.00
		279,303.80	533,557.79
			144,715.48
		1,704,803.60	12,323,748.12
	16,995,376.60	6,598.27	17,001,974.87
		1,569,076.96	1,569,076.96
	16,995,376.60	3,280,478.83	31,039,515.43
		2,145,648.44	2,145,648.44
			10,428,933.30
	16,995,376.60	5,705,431.07	44,147,654.96
\$ 0.00	\$ 19,031,045.05	\$ 5,861,848.45	\$ 48,531,525.48

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

Total Fund Balances - Governmental Funds \$ 44,147,654.96

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. 457,393,034.75

Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the government funds until due. This amount is the amount of accrued interest payable at fiscal year-end. (146,523.00)

Architect fees are not recorded in the governmental funds because they will not be paid with current financial resources but are accrued and reported in the government-wide statements. (81,243.00)

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 funds are included in governmental activities in the statement of net position. 9,539,710.28

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:

Qualified Zone Academy Bonds Payable	\$ 5,000,000.00	
Qualified School Construction Bonds Payable	60,000,000.00	
Bonds Payable	2,628,535.82	
Compensated Absences Payable	10,397,889.41	
Other Postemployment Benefits Payable	1,596,953.00	(79,623,378.23)

Net Position - Governmental Activities \$ 431,229,255.76

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Federal Programs	Debt Service - Federal Economic Stimulus Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 176,877.67	\$	\$ 2,074,682.80	\$ 3,174,000.00
Federal Through State and Local	963,270.19	425,329.77	8,881,228.94	
State	33,570,414.93			
Local:				
Property Taxes	73,883,996.40			
Charges for Services - Food Service				
Miscellaneous	4,575,960.99			19,958.81
Total Local Revenues	<u>78,459,957.39</u>			<u>19,958.81</u>
Total Revenues	<u>113,170,520.18</u>	<u>425,329.77</u>	<u>10,955,911.74</u>	<u>3,193,958.81</u>
Expenditures				
Current - Education:				
Instruction	69,932,499.69	94,078.23	5,590,867.41	
Pupil Personnel Services	6,491,331.03		668,776.21	
Instructional Media Services	1,264,834.45			
Instruction and Curriculum Development Services	2,672,401.08	148,613.35	2,572,439.29	
Instructional Staff Training Services	1,248,131.63	65,912.71	1,359,943.11	
Instruction Related Technology	787,579.33			
School Board	682,183.11			
General Administration	308,342.83	12,909.75	395,569.04	
School Administration	8,500,802.86		137,304.61	
Facilities Acquisition and Construction				
Fiscal Services	891,688.10		25,420.95	
Food Services				
Central Services	2,910,970.40			
Pupil Transportation Services	5,933,801.70		4,958.18	
Operation of Plant	11,202,636.03		102,627.44	
Maintenance of Plant	3,713,391.16			
Administrative Technology Services	1,320,402.01	103,815.73		
Community Services	105,166.15			
Fixed Capital Outlay:				
Facilities Acquisition and Construction			66,875.19	
Other Capital Outlay	18,179.07		31,130.31	
Debt Service:				
Principal				
Interest and Fiscal Charges	74,686.86			3,420,700.00
Total Expenditures	<u>118,059,027.49</u>	<u>425,329.77</u>	<u>10,955,911.74</u>	<u>3,420,700.00</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,888,507.31)</u>			<u>(226,741.19)</u>
Other Financing Sources (Uses)				
Transfers In	6,936,130.28			3,776,111.76
Insurance Loss Recoveries	35,269.17			
Transfers Out				
Total Other Financing Sources (Uses)	<u>6,971,399.45</u>			<u>3,776,111.76</u>
Net Change in Fund Balances	2,082,892.14			3,549,370.57
Fund Balances, Beginning	8,745,010.63			7,069,573.95
Fund Balances, Ending	<u>\$ 10,827,902.77</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 10,618,944.52</u>

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

Capital Projects - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		6,308,278.03	5,425,560.47
		798,712.83	16,578,106.93
	18,510,557.99		34,369,127.76
		2,267,797.88	92,394,554.39
5,599.09	175,195.00	78,639.52	2,267,797.88
5,599.09	18,685,752.99	2,346,437.40	4,855,353.41
5,599.09	18,685,752.99	9,453,428.26	99,517,705.68
			75,617,445.33
			7,160,107.24
			1,264,834.45
			5,393,453.72
			2,673,987.45
			787,579.33
			682,183.11
			716,821.62
			8,638,107.47
140,017.56	1,654,967.56	21,637.60	1,816,622.72
			917,109.05
		8,371,823.63	8,371,823.63
			2,910,970.40
			5,938,759.88
			11,305,263.47
			3,713,391.16
			1,424,217.74
			105,166.15
4,421,767.25	11,171,440.02	2,698,179.85	18,358,262.31
		1,015.20	50,324.58
		430,000.00	430,000.00
		155,101.63	3,650,488.49
4,561,784.81	12,826,407.58	11,677,757.91	161,926,919.30
(4,556,185.72)	5,859,345.41	(2,224,329.65)	(6,036,418.46)
		242,708.40	10,954,950.44
			35,269.17
	(8,926,787.81)	(2,000,000.00)	(10,926,787.81)
	(8,926,787.81)	(1,757,291.60)	63,431.80
(4,556,185.72)	(3,067,442.40)	(3,981,621.25)	(5,972,986.66)
4,556,185.72	20,062,819.00	9,687,052.32	50,120,641.62
\$ 0.00	\$ 16,995,376.60	\$ 5,705,431.07	\$ 44,147,654.96

**CHARLOTTE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Net Change in Fund Balances - Governmental Funds \$ (5,972,986.66)

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 capital outlays in excess of depreciation expense in the current fiscal year.	3,563,718.00
Certain accrued expenditures are not recorded in the governmental funds.	(81,243.00)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year.	449,130.60
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrued in the statement of activities. This is the net change in accrued interest in the current period.	(36,148.00)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.	620,571.88
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.	(189,985.00)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.	2,914,301.14
Change in Net Position - Governmental Activities	<u>1,267,358.96</u>

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

**CHARLOTTE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET POSITION -
PROPRIETARY FUNDS
June 30, 2013**

	Governmental Activities - Internal Service Funds <hr style="border: 0.5px solid black;"/>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 12,592,804.90 <hr style="border: 0.5px solid black;"/>
LIABILITIES	
Current Liabilities:	
Salaries and Benefits Payable	\$ 1,732.48
Payroll Deductions and Withholdings	4,740.83
Accounts Payable	48,719.00
Due to Other Funds	615,752.82
Deposits Payable	33,204.73
Unearned Revenue	1,000,278.45 <hr style="border: 0.5px solid black;"/>
Total Current Liabilities	1,704,428.31 <hr style="border: 0.5px solid black;"/>
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	1,348,666.31 <hr style="border: 0.5px solid black;"/>
Total Noncurrent Liabilities	1,348,666.31 <hr style="border: 0.5px solid black;"/>
Total Liabilities	3,053,094.62 <hr style="border: 0.5px solid black;"/>
NET POSITION	
Unrestricted	9,539,710.28 <hr style="border: 0.5px solid black;"/>
TOTAL LIABILITIES AND NET POSITION	\$ 12,592,804.90 <hr style="border: 0.5px solid black;"/>

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

**CHARLOTTE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013**

		Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Premium Revenues	\$	19,813,779.17
OPERATING EXPENSES		
Salaries		124,169.01
Employee Benefits		35,236.93
Purchased Services		3,561,353.41
Materials and Supplies		1,853.28
Capital Outlay		450.00
Insurance Claims		13,148,169.23
Total Operating Expenses		<u>16,871,231.86</u>
Operating Income		<u>2,942,547.31</u>
NONOPERATING EXPENSES		
Interest Income, net		(83.54)
Transfers Out		(28,162.63)
Change in Net Position		2,914,301.14
Total Net Position - Beginning		<u>6,625,409.14</u>
Total Net Position - Ending	\$	<u><u>9,539,710.28</u></u>

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

**CHARLOTTE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2013**

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	\$ 18,280,590.54
Cash Payments for Insurance Claims	(12,916,682.98)
Cash Payments to Suppliers for Goods and Services	(1,946,999.06)
Cash Payments to Employees for Services	(166,926.31)
	<u>3,249,982.19</u>
Net Cash Provided by Operating Activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to Other Funds	(28,162.63)
	<u>(28,162.63)</u>
Net Cash Used by Noncapital Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income, net	(83.54)
	<u>(83.54)</u>
Net Cash Used by Investing Activities	
Net Increase in Cash and Cash Equivalents	3,221,736.02
Cash and Cash Equivalents, Beginning	9,371,068.88
	<u>9,371,068.88</u>
Cash and Cash Equivalents, Ending	<u>\$ 12,592,804.90</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 2,942,547.31
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Due From Other Agencies	159.00
Salaries and Benefits Payable	(3,180.91)
Payroll Deductions and Withholdings	(4,339.46)
Accounts Payable	(7,439.05)
Deposits Payable	7,906.41
Unearned Revenue	(532,910.18)
Due to Other Funds	615,752.82
Estimated Insurance Claims Payable	231,486.25
	<u>307,434.88</u>
Total Adjustments	
Net Cash Provided by Operating Activities	<u>\$ 3,249,982.19</u>

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,356,906.68
LIABILITIES	
Due to Other Funds	\$ 80,247.80
Internal Accounts Payable	<u>2,276,658.88</u>
TOTAL LIABILITIES	<u>\$ 2,356,906.68</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statement

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 unit. 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 separated component units for which the primary government is financial accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Charlotte 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 reported as unallocated.

B. Reporting Entity

The Charlotte 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 appointed Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Charlotte County.

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

Blended Component Unit. A blended component unit, is in substance, part of the primary District's operations, even though it is a legally separate entity. Thus, the blended component unit is appropriately presented as part of the District. The Charlotte 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. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

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

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 Charlotte Local Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

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 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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Debt Service – Federal Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs on the District's qualified school construction bonds (QSCBs).
- Capital Projects – Federal Economic Stimulus Fund – to account for resources from the District's QSCB's to be used for educational capital outlay needs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments.

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

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

- Internal Service Funds – to account for the District’s Employee Benefits Program and the financing of the Special Projects Center Consortium, for which the District is the predominate participant and fiscal agent.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. 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 in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

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

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 funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

The Charlotte Local Education Foundation, Inc., is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, and money market funds, except that amounts held in escrow for long-term debt are not considered to be cash equivalents.

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 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 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at

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

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 include money market funds and a Federal Home Loan Mortgage Corporation (FHLMC) note, 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 cost using the moving average pricing method, 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.

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	15 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	7 years
Motor Vehicles	7 - 10 years
Audio Visual Materials and Computer Software	5 years

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

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

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 effective interest method. Bonds payable are 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 fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balance at June 30, 2013.

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District 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. Also classified as assigned are amounts that are constrained to be used for specific purposes based on actions of the Superintendent. 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 6233, which provides at least 3 percent of the current year's annual estimated General Fund revenues to be reserved for contingency purposes. In the event these reserves are needed, a majority vote of the Board is required before using these funds, and the Superintendent is required to provide a financial plan to the Board to restore the funds to the minimum 3 percent amount, along with a timeline for restoration.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

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

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward

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

into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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 Charlotte County Property Appraiser, and property taxes are collected by the Charlotte County Tax Collector.

The Board adopted the 2012 tax levy on September 11, 2012. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

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

6. Proprietary Funds 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 and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. ACCOUNTING CHANGES

A. Governmental Accounting Standards Board Statement No. 65.

The District elected to early implement Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. The District's early adoption requires the District to restate the beginning net position in the governmental activities in the amount of the deferred charges related to debt issuance costs of previously issued State Board of Education bonds. The District's beginning net position was decreased \$10,030.48, restated to \$429,961,896.80, and resulted in the removal of deferred charges, previously reported as an asset, from the governmental activities statement of net position. This reporting change affects the comparability of amounts reported for the 2012-13 fiscal year with amounts reported for the 2011-12 fiscal year.

B. Comparability of Major Funds.

Pursuant to the Florida Financial and Program Cost Accounting and Reporting for Florida Schools (Red Book), the Florida Department of Education requires that the District report the Debt Service – ARRA Economic Stimulus Fund and Capital Projects – ARRA Economic Stimulus Fund as major governmental funds for financial reporting transparency of ARRA debt service and capital projects transactions, respectively. In prior fiscal years, the District reported these transactions in the Debt Service - Other Debt Service and Capital Projects – Other Capital Projects Funds, both reported as nonmajor governmental funds in the 2011-12 fiscal year. These variations in reporting affect the comparability of amounts reported for the 2012-13 fiscal year with amounts reported for the 2011-12 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 it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

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

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

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1) (3)	40 Day Average	\$ 40,120,107.76
Fund B	3.98 Year Average	534,462.79
Debt Service Accounts	6 Months	72,539.35
Bank of America - Money Market (1)	40 Day Average	95,008.48
Federal Home Loan Mortgage Corporation (FHLMC) Note (2)	October, 10 2013	1,632,264.25
Federated Prime Obligations	40 Day Average	271.72
Total Investments, Reporting Entity		\$ 42,454,654.35

Notes: (1) These investments are considered cash equivalents for financial reporting purposes.

(2) This investment is held under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZAB). See Note III.I.

(3) A portion of this investment (\$10,617,687.06) is held under a paying agent agreement in connection with the Qualified School Construction Bonds (QSCB) and is not considered a cash equivalent. See note III.I.

➤ **Interest Rate Risk**

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

The District's investment in the FHLMC discount note is authorized under a forward delivery agreement (FDA) with the QZAB paying agent. The FDA guarantees an interest rate of 3.19 percent. The Provider of the FDA bears the interest rate risk.

The District's investments in the State of Florida debt service accounts will be used for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk (and credit risk) for this account.

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

➤ 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 ones considered to have low credit risks. Money market funds must be Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments in interest-bearing time deposits must be in qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's investment policy does not further limit its investment choices.

As of June 30, 2013, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

The District's investment in the Bank of America Money Market Reserves Fund is rated Aaa by Moody's Investor Services and AAAM by Standard and Poor's.

The District's investment in the Federated Prime Obligations Fund is authorized under an agreement with the QSCB paying agent and is rated Aaa by Moody's Investor Services and AAAM by Standard & Poor's.

The FHLMC investments are rated AA+ by Standard & Poor's and Aaa by Moody's Investor Services.

➤ 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. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy does not address custodial credit risk.

The District's investment in the FHLMC discount note is held in a custodial account by the paying agent.

➤ 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 does not have a formal investment policy that limits the amount the District may invest in any one issuer. The FHLMC note comprises 33 percent of investments in the Other Governmental Funds.

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

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 12,814,823.30	\$	\$	\$ 12,814,823.30
Construction in Progress	49,329,827.10	15,490,900.99	58,575,938.30	6,244,789.79
Total Capital Assets Not Being Depreciated	62,144,650.40	15,490,900.99	58,575,938.30	19,059,613.09
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,512,045.34	66,875.19		6,578,920.53
Buildings and Fixed Equipment	454,558,264.02	58,575,938.30		513,134,202.32
Furniture, Fixtures, and Equipment	26,029,039.87	1,665,774.60	1,526,090.19	26,168,724.28
Motor Vehicles	12,798,423.98	773,549.12	239,490.69	13,332,482.41
Audio Visual Materials and Computer Software	1,012,168.05	41,393.99	6,800.00	1,046,762.04
Total Capital Assets Being Depreciated	500,909,941.26	61,123,531.20	1,772,380.88	560,261,091.58
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,464,615.00	252,852.00		4,717,467.00
Buildings and Fixed Equipment	79,268,815.00	10,246,351.00		89,515,166.00
Furniture, Fixtures, and Equipment	16,919,636.44	2,714,182.78	1,526,090.19	18,107,729.03
Motor Vehicles	7,883,037.14	1,136,286.82	239,490.69	8,779,833.27
Audio Visual Materials and Computer Software	689,171.33	125,103.29	6,800.00	807,474.62
Total Accumulated Depreciation	109,225,274.91	14,474,775.89	1,772,380.88	121,927,669.92
Total Capital Assets Being Depreciated, Net	391,684,666.35	46,648,755.31		438,333,421.66
Governmental Activities Capital Assets, Net	\$ 453,829,316.75	\$ 62,139,656.30	\$ 58,575,938.30	\$ 457,393,034.75

The District's capital assets serve several functions; accordingly, depreciation expense, which totals \$14,474,775.89, is not charged to functions but is shown as unallocated on the statement of activities.

D. Florida Retirement System

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

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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.

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to		
Members from All of the Above Classes	0.00	5.44
FRS, Reemployed Retiree	(B)	(B)

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

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

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The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$7,722,141.30, \$4,663,722.20, and \$4,662,219.66, respectively, which were equal to the required contributions for each fiscal year.

There were 514 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$1,696,489.46, which was equal to the required contribution for the 2012-13 fiscal year.

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

E. Other Postemployment Benefit Obligations

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 64 retirees received other postemployment benefits. The District provided required contributions of \$242,698 toward the annual OPEB cost, net of retiree contributions totaling \$592,520, which represents 0.9 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

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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)	\$ 200,593
Amortization of Unfunded Actuarial Accrued Liability	<u>280,146</u>
Annual Required Contribution	480,739
Interest on Net OPEB Obligation	63,314
Adjustment to Annual Required Contribution	<u>(111,370)</u>
Annual OPEB Cost (Expense)	432,683
Contribution Toward the OPEB Cost	<u>(242,698)</u>
Change in Net OPEB Obligation	189,985
Net OPEB Obligation, Beginning of Year	<u>1,406,968</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,596,953</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010-11	\$ 784,862	61.2%	\$1,237,741
2011-12	416,408	59.4%	1,406,968
2012-13	432,683	56.1%	1,596,953

Funded Status and Funding Progress. As of January 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$3,328,950, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,328,950, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$63,062,639, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.3 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

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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 January 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and the frozen entry age normal cost actuarial method to estimate the District’s 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, projected salary increases of 4.5 percent to 9.5 percent, and an annual healthcare cost trend rate of 8.5 percent initially for the 2012-13 fiscal year, reduced to an ultimate rate of 5.465 percent after 8 years. The investment rate of return and projected salary rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 15 year period. The remaining amortization period at June 30, 2013, was 12 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, 2013:

Major Funds				
General	Special Revenue - Other Federal Programs	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 139,920	\$ 29,216	\$15,140,309	\$ 96,020	\$ 15,405,465

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

Project	Contract Amount	Completed to Date	Balance Committed
Lemon Bay High School:			
Architect	\$ 2,265,993.96	\$ 1,569,733.74	\$ 696,260.22
Contractor	14,294,981.50	2,042,652.01	12,252,329.49
Total	\$ 16,560,975.46	\$ 3,612,385.75	\$ 12,948,589.71

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; third party injuries and/or property damage and natural disasters. The Charlotte County District School Board is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which eight district school boards have established a public entity risk sharing-pool for property, general liability, automobile liability, workers' compensation, government crime and other coverage deemed necessary by the members of the SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member contributions (premiums), and purchased insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents/finance directors or an authorized representative of all participating districts. Employer's Mutual, Inc., serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except named wind and flood), respectively. The named wind/hurricane deductible is 5 percent of replacement cost value with a minimum of \$100,000 per occurrence. The deductibles for all other wind events is \$100,000. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents plus \$100,000 time element per occurrence. The flood deductible outside a special flood hazard area is \$100,000.

SCERMP's purchased excess property loss limit during the 2012-13 fiscal year was \$100 million, except for flood/earthquake of \$75 million.

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Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2012-13 fiscal year was \$850,000. SCERMP purchases excess liability coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employers liability is included subject to \$2,000,000 per occurrence and \$4,000,000 in the aggregate.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, which effectively limits the amount of liability of governmental entities for tort claims to \$200,000 per claim and \$300,000 per occurrence.

The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

Effective January 1, 2010, the District contracted an administrator to manage the health and hospitalization self-insurance program, including the processing, investigating, and payment of claims. The insurance administrator has been approved by the Florida Department of Financial Services, Office of Insurance Regulation. The District's liability for health and hospitalization coverage is limited by excess insurance to \$225,000 per individual per plan year.

As of June 30, 2013, a liability in the amount of \$1,348,666.31 was actuarially determined to cover estimated incurred but not reported insurance claims payable.

The following schedule represents the changes in claim liability for current and past fiscal year for the District's self-insurance fund:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimated Liability	Claims Payments	Balance at Fiscal Year End
2011-12	\$ 1,196,300.00	\$ 13,278,709.47	\$ (13,357,829.41)	\$ 1,117,180.06
2012-13	1,117,180.06	13,148,169.23	(12,916,682.98)	1,348,666.31

H. Changes in Short-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 19,000,000	\$ (19,000,000)	\$ 0

On October 5, 2012, the Charlotte County District School Board issued Tax Anticipation Note, Series 2012, in the amount of \$19 million. The note carried an interest rate of 2 percent and was repaid on March 31, 2013.

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I. Long-Term Liabilities

1. Qualified Zone Academy Bonds Payable

On November 27, 2006, the District entered into a financing arrangement, characterized as a lease-purchase agreement, with the Charlotte School Board Leasing Corporation (Leasing Corporation), whereby the District secured financing under the Qualified Zone Academy Bonds (QZAB) Program in the amount of \$5,000,000. The QZAB Program provides no interest cost financing to purchase certain goods or services for schools located in eligible District areas (zones). The District received financing of \$5,000,000 from a local bank on November 27, 2006. Interest on the debt is “paid” by the United States Government through the issuance of Federal income tax credits to the holder of the QZAB debt (the bank). The rate of return to the bank was established by the United States Government at the time of the sale. Repayment of the original \$5,000,000 financing proceeds is due in full on November 27, 2022. In connection with the financing, the District entered into a forward delivery agreement requiring annual deposits of \$242,708.40 into a sinking fund for 16 consecutive years, beginning November 27, 2007. The forward delivery agreement provides a guaranteed investment return of 3.25 percent per annum, whereby the required deposits, along with the accrued interest, will be sufficient to repay the debt at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the debt matures. The financing proceeds were designated for technology upgrades/replacements, computer laptops, and instructional equipment/materials at the following schools: The Academy at Charlotte Tech Center, Charlotte Harbor Center School, Neil Armstrong Elementary School, Port Charlotte Middle School, and Port Charlotte High School. As of June 30, 2013, the paying agent held \$1,632,264.25.

2. Qualified School Construction Bond Payable

In the 2009-10 fiscal year, the District established a master lease-purchase program for the lease-purchase financing of various current and future educational facilities and sites. The general terms of this program were determined pursuant to a Master Lease-Purchase Agreement and Master Trust Agreement between the District and the Leasing Corporation.

On May 28, 2010, the District entered into a financing arrangement with the Leasing Corporation under this program whereby the District secured financing under the Qualified School Construction Bonds (QSCB) in the amount of \$60,000,000. The QSCB program was established by Section 1521 of the American Recovery and Reinvestment Act (ARRA) and codified in Section 54A and 54F of the Internal Revenue Code. Among other things, the program provides low interest cost financing to school districts to construct certain educational facilities. Interest on the debt is paid by the District, and reimbursed in part by the federal government.

The financing was accomplished through the issuance of a School Board of Charlotte County, Florida Master Lease Program – Master Lease Certificates, Series 2010A – Qualified School Construction Bond (QSCB) in the principal amount of \$60,000,000. The certificate proceeds were from the lender (Bank of America) and designated for the replacement construction of two schools, Meadow Park Elementary

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School and Lemon Bay High School. Under terms of Lease Schedule 2010A to the Master Lease-Purchase Agreement, and other related agreements, the District provided a ground lease to the Leasing Corporation, then would construct, acquire, install and lease-purchase the projects from the Leasing Corporation.

Repayment of the original \$60,000,000 financing proceeds is due in full on May 1, 2027. Interest payments are due semi-annually based on a 5.7 percent annual interest rate, and a federal interest subsidy reimbursement is available at an annual rate of 5.29 percent. Rent paid by the District to the Leasing Corporation corresponds to the annual debt service requirements on the bonds. Rents are paid from “Available Revenues” of the District, including capital outlay millage revenues. The lease term ends on the date the certificates are paid in full.

In connection with the financing and pursuant to a Series 2010A Supplemental Master Trust Agreement, the Leasing Corporation assigned its rights to the rent collections to a Trustee (Regions Bank), requiring the District to deposit the 17 annual “basic” rent payments of \$3,529,412 (corresponding to the principal portion of the bond), beginning in 2011, into a sinking fund held by the Trustee, as security for the bond. These amounts will be sufficient to pay the \$60 million principal balance at maturity. Investment income earned in the Sinking Fund can be used to reduce future annual rent payments. At June 30, 2013, the market value of the sinking fund account was \$10,617,958.78.

3. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 2,380,000.00	5.0	2018
Series 2009A, Refunding	160,000.00	5.0	2019
Subtotal	2,540,000.00		
Add: Unamortized Premium on Debt	185,051.00		
Less: Unamortized Difference Between Reacquisition Price and Net Carrying Amount of Old Debt	(96,515.18)		
Total Bonds Payable	\$ 2,628,535.82		

The various bonds were issued to finance capital outlay projects of the District. 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

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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, 2013, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2014	\$ 582,000.00	\$ 455,000.00	\$ 127,000.00
2015	579,250.00	475,000.00	104,250.00
2016	580,500.00	500,000.00	80,500.00
2017	585,500.00	530,000.00	55,500.00
2018	589,000.00	560,000.00	29,000.00
2019	21,000.00	20,000.00	1,000.00
Total State School Bonds	2,937,250.00	2,540,000.00	397,250.00
Add: Unamortized Premium on Debt	185,051.00	185,051.00	
Less: Unamortized Difference Between Reacquisition Price and Net Carrying Amount of Old Debt	(96,515.18)	(96,515.18)	
Total	3,025,785.82	2,628,535.82	397,250.00

4. 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					
Qualified Zone Academy Bonds Payable	\$ 5,000,000.00	\$	\$	\$ 5,000,000.00	\$
Qualified School Construction Bonds Payable	60,000,000.00			60,000,000.00	
Bonds Payable	3,077,666.42		449,130.60	2,628,535.82	455,000.00
Estimated Insurance Claims Payable	1,117,180.06	13,148,169.23	12,916,682.98	1,348,666.31	
Compensated Absences Payable	11,018,461.29	776,383.57	1,396,955.45	10,397,889.41	1,511,493.18
Other Postemployment Benefits Payable	1,406,968.00	432,683.00	242,698.00	1,596,953.00	
Total Governmental Activities	\$ 81,620,275.77	\$ 14,357,235.80	\$ 15,005,467.03	\$ 80,972,044.54	\$ 1,966,493.18

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

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J. Fund Balance Reporting

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

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

K. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 372,426.04	\$
Special Revenue:		
ARRA Economic Stimulus Programs		891.60
Other Federal Programs		291,286.64
Nonmajor Governmental	615,752.82	
Proprietary		615,752.82
Fiduciary		80,247.80
Total	\$ 988,178.86	\$ 988,178.86

Interfund receivables and payables are temporary loans of cash between funds for a period of less than 13 months. The temporary loans will be repaid in the next fiscal year.

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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 2012-13 fiscal year:

<u>Source</u>	<u>Amount</u>
Categorical Educational Program - Class Size Reduction	\$ 17,277,770.00
Florida Education Finance Program	11,720,909.00
Workforce Development Program	2,572,245.00
School Recognition	981,157.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	676,517.70
Voluntary Prekindergarten Program	550,626.92
Discretionary Lottery Funds	44,182.00
Workforce Development Performance Incentive	43,330.00
Miscellaneous	502,390.14
	<hr/>
Total	<u><u>\$ 34,369,127.76</u></u>

Accounting policies relating to certain State revenue sources are described in note I.G.1.

2. Property Taxes

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.164	\$ 66,187,033
Prior Period Funding Adjustment	0.079	1,012,544
Basic Discretionary Local Effort	0.748	9,587,123
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	19,225,513
Total	<u><u>7.491</u></u>	<u><u>\$ 96,012,213</u></u>

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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	\$ 6,936,130.28	\$
Debt Service:		
Federal Economic Stimulus	3,776,111.76	
Capital Projects:		
Local Capital Improvement Fund		8,926,787.81
Nonmajor Governmental	242,708.40	2,000,000.00
Proprietary Funds		28,162.63
Total	\$ 10,954,950.44	\$ 10,954,950.44

Interfund transfers represent permanent transfers of money between funds. In general, funds are transferred to the General Fund from the Capital Projects Funds to finance various District maintenance projects and equipment purchases. The transfer to the Debt Service – Federal Economic Stimulus Fund is to fund required sinking fund payments.

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IV. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2012-13 fiscal year:

	Total	Employee Benefit Insurance	Special Projects Center
Total Assets	\$ 12,592,804.90	\$ 12,592,804.90	\$
Liabilities and Net Position:			
Salaries and Benefits Payable	\$ 1,732.48	\$ 1,732.48	\$
Payroll Deductions and Withholdings	4,740.83	4,740.83	
Accounts Payable	48,719.00	48,719.00	
Due to Other Funds	615,752.82	615,752.82	
Deposits Payable	33,204.73	1,033,483.18	
Unearned Revenue	1,000,278.45		
Estimated Insurance Claims Payable	1,348,666.31	1,348,666.31	
Net Position:			
Unrestricted Net Position	9,539,710.28	9,539,710.28	
Total Liabilities and Net Position	\$ 12,592,804.90	\$ 12,592,804.90	\$
Revenues:			
Premium Contributions	\$ 19,813,779.17	\$ 19,813,779.17	\$
Total Revenues	19,813,779.17	19,813,779.17	
Total Expenses	(16,871,315.40)	(16,871,315.40)	
Transfers Out	(28,162.63)		(28,162.63)
Change in Net Position	\$ 2,914,301.14	\$ 2,942,463.77	\$ (28,162.63)

V. CONSORTIUMS

The District was a member, and fiscal agent of, the Special Projects Center Consortium (Center), a four-district consortium formed to provide educational media to support the educational schools served by the Center. The Center dissolved effective June 30, 2012, and the District's share of Center resources was transferred out during the 2012-13 fiscal year to close out the Special Projects Center Fund. The District is a member of both the Small School District Council Consortium and the Greater Florida Consortium of School Boards. These consortiums are organized to provide educational information, interpretation, and consultation assistance to the affected Districts.

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

VI. NON-FEDERAL SHARE FOR HEAD START PROGRAMS

For the Head Start and Early Head Start grants, the District is required to provide 20 percent of the total amount expended using non-Federal funds and donated goods and services. Local funds expended were for facilities, equipment and district support staff, such as therapists, psychologists and teachers. Donated goods and services were provided by the community and were used for the benefit of the program. During this fiscal year, for grant number 04CH3161/46 with a period ending October 31, 2012, the required amount of non-Federal share is \$184,021.87. For grant number 04CH3161/47 the required amount of non-Federal share during the period November 1, 2012, through June 30, 2013, is \$334,648.83.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 157,000.00	\$ 157,000.00	\$ 176,877.67	\$ 19,877.67
Federal Through State and Local State	931,473.00	931,473.00	963,270.19	31,797.19
	35,338,165.00	33,481,327.00	33,570,414.93	89,087.93
Local:				
Property Taxes	73,695,929.00	73,870,929.00	73,883,996.40	13,067.40
Miscellaneous	3,470,304.00	3,937,783.00	4,575,960.99	638,177.99
Total Local Revenues	<u>77,166,233.00</u>	<u>77,808,712.00</u>	<u>78,459,957.39</u>	<u>651,245.39</u>
Total Revenues	<u>113,592,871.00</u>	<u>112,378,512.00</u>	<u>113,170,520.18</u>	<u>792,008.18</u>
Expenditures				
Current - Education:				
Instruction	71,833,811.00	71,072,774.73	69,932,499.69	1,140,275.04
Pupil Personnel Services	6,892,286.00	6,691,112.00	6,491,331.03	199,780.97
Instructional Media Services	1,359,888.00	1,357,087.67	1,264,834.45	92,253.22
Instruction and Curriculum Development Services	2,761,622.00	2,814,121.00	2,672,401.08	141,719.92
Instructional Staff Training Services	1,268,703.00	1,286,528.00	1,248,131.63	38,396.37
Instruction Related Technology	489,635.00	795,335.00	787,579.33	7,755.67
School Board	842,913.00	692,613.00	682,183.11	10,429.89
General Administration	318,605.00	321,605.00	308,342.83	13,262.17
School Administration	8,352,767.00	8,539,745.00	8,500,802.86	38,942.14
Facilities Acquisition and Construction				
Fiscal Services	924,424.00	925,424.00	891,688.10	33,735.90
Central Services	2,943,447.00	2,966,227.00	2,910,970.40	55,256.60
Pupil Transportation Services	6,609,991.00	6,367,854.00	5,933,801.70	434,052.30
Operation of Plant	11,792,127.00	11,570,208.00	11,202,636.03	367,571.97
Maintenance of Plant	3,728,297.00	3,735,297.00	3,713,391.16	21,905.84
Administrative Technology Services	1,332,004.00	1,460,844.00	1,320,402.01	140,441.99
Community Services	125,066.00	125,266.00	105,166.15	20,099.85
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		18,179.07	18,179.07	
Debt Service:				
Interest and Fiscal Charges	100,000.00	85,000.00	74,686.86	10,313.14
Total Expenditures	<u>121,675,586.00</u>	<u>120,825,220.47</u>	<u>118,059,027.49</u>	<u>2,766,192.98</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,082,715.00)</u>	<u>(8,446,708.47)</u>	<u>(4,888,507.31)</u>	<u>3,558,201.16</u>
Other Financing Sources				
Transfers In	6,925,000.00	6,953,163.00	6,936,130.28	(17,032.72)
Insurance Loss Recoveries			35,269.17	35,269.17
Total Other Financing Sources	<u>6,925,000.00</u>	<u>6,953,163.00</u>	<u>6,971,399.45</u>	<u>18,236.45</u>
Net Change in Fund Balances	<u>(1,157,715.00)</u>	<u>(1,493,545.47)</u>	<u>2,082,892.14</u>	<u>3,576,437.61</u>
Fund Balances, Beginning	8,745,010.63	8,745,010.63	8,745,010.63	
Fund Balances, Ending	<u>\$ 7,587,295.63</u>	<u>\$ 7,251,465.16</u>	<u>\$ 10,827,902.77</u>	<u>\$ 3,576,437.61</u>

Special Revenue - Federal Economic Stimulus Fund				Special Revenue - Other Federal Programs			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 649,561.00	\$ 425,329.77	\$ 425,329.77	\$	\$ 2,173,670.00 10,611,953.00	\$ 2,107,713.44 11,347,920.81	\$ 2,074,682.80 8,881,228.94	\$ (33,030.64) (2,466,691.87)
649,561.00	425,329.77	425,329.77		12,785,623.00	13,455,634.25	10,955,911.74	(2,499,722.51)
132,448.00	94,078.23	94,078.23		5,994,267.00 768,403.00	6,724,620.58 862,249.10	5,590,867.41 668,776.21	1,133,753.17 193,472.89
298,449.00	148,613.35	148,613.35		3,722,552.00	3,422,589.53	2,572,439.29	850,150.24
87,330.00	65,912.71	65,912.71		1,406,941.00	1,520,668.13	1,359,943.11	160,725.02
11,900.00							
15,018.00	12,909.75	12,909.75		512,135.00	524,300.64	395,569.04	128,731.60
				160,026.00	141,627.48	137,304.61	4,322.87
				94,578.00	21.81		21.81
				25,526.00	25,424.66	25,420.95	3.71
				28,034.00	25,684.64	4,958.18	20,726.46
				73,161.00	110,442.18	102,627.44	7,814.74
104,416.00	103,815.73	103,815.73			66,875.19 31,130.31	66,875.19 31,130.31	
649,561.00	425,329.77	425,329.77		12,785,623.00	13,455,634.25	10,955,911.74	2,499,722.51
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	\$ 0	\$ 4,981,327	\$ 4,981,327	0.0%	\$ 93,787,311	5.3%
January 1, 2010	0	6,042,832	6,042,832	0.0%	64,612,372	9.4%
January 1, 2012	0	3,328,950	3,328,950	0.0%	63,062,639	5.3%

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

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

I. BUDGETARY BASIS OF ACCOUNTING

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

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

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2012, projected unfunded actuarial accrued liability of \$3,328,950 was significantly lower than the January 1, 2010, liability of \$6,042,832 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- *Initial cost of Coverage and Retiree Contributions* – In the previous valuation, the cost of coverage was expected to increase from \$776 to \$909 per employee per month; however, the cost actually decreased to \$706 per employee per month for the year beginning January 1, 2012. At the same time, monthly contributions required from retirees increased from \$538 to \$539 for single coverage. These changes decreased the cost and liability.
- *Population Changes* – The number of enrolled retirees receiving post-employment health-care benefits decreased from 77 in the previous valuation to 64 in the latest valuation. At the same time, the number of active employees eligible for future post-employment health-care benefits decreased from 1,653 to 1,605. This change decreased the cost and liability.
- *Medical Trend Assumption* – The actuary revised the rate of coverage acceptance from 20 percent in the prior valuation to 25 percent in the latest valuation, based upon updated data. This change increased the cost and liability.
- *Medicare Offset Assumptions* – The actuary changed an assumption pertaining to the cost of coverage for retirees eligible for Medicare. In the prior valuation, the employer's costs for claims incurred by Medicare eligible retirees was assumed to be 35 percent lower than the cost of the same claim incurred by a retiree who is not eligible for Medicare benefits. In the latest valuation, the percentage rate increased to 45 percent, decreasing the cost and liability.
- *Demographic Assumptions* – The actuary also revised assumed retirement rates to reflect changes made by the Florida Retirement System for its July 1, 2011, actuarial valuation, modestly decreasing the cost and liability.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	\$ 1,263,024.74
National School Lunch Program	10.555 (2)	300	4,721,781.36
Summer Food Service Program for Children	10.559	323	<u>189,534.27</u>
Total Child Nutrition Cluster			<u>6,174,340.37</u>
Fresh Fruit and Vegetable Program	10.582	None	<u>184,997.78</u>
Total United States Department of Agriculture			<u>6,359,338.15</u>
United States Department of Education:			
Direct:			
Student Finance Assistance Cluster:			
Federal Supplemental Education Opportunity Grants	84.007	N/A	8,105.00
Federal Pell Grant Program	84.063	N/A	<u>617,223.60</u>
Total Direct			<u>625,328.60</u>
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (4)	263	3,814,525.33
Special Education - Preschool Grants	84.173	267	123,946.05
Sarasota County District School Board:			
Special Education - Grants to States	84.027 (4)	None	<u>90,679.22</u>
Total Special Education Cluster			4,029,150.60
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	315,235.73
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226	3,796,715.35
Career and Technical Education - Basic Grants to States	84.048	161	179,602.76
Education for Homeless Children and Youth	84.196	127	42,405.86
English Language Acquisition Grants	84.365	102	18,794.13
Improving Teacher Quality State Grants	84.367	224	590,003.73
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111,RG311,RL111	<u>425,329.77</u>
Total Indirect			<u>9,397,237.93</u>
Total United States Department of Education			<u>10,022,566.53</u>
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	<u>2,074,682.80</u>
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	<u>176,877.67</u>
Total Expenditures of Federal Awards			<u>\$ 18,633,465.15</u>

- 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 \$379,043.20 of donated food received during the fiscal year. Donated foods are valued at fair values as determined at the time of donation.
- (3) Head Start. Expenditures include \$736,087.49 for grant number/program year 04CH3161/46 and \$1,338,595.31 for grant number/program year 04CH3161/47.
- (4) Special Education - Grants to States. Total CFDA 84.027 expenditures: \$3,905,204.55.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

**INDEPENDENT AUDITOR'S REPORT ON 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 Charlotte County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 18, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Charlotte County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Management's Response

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 18, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Charlotte County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

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

Report on Internal Control Over Compliance

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

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

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

Management's Response

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 18, 2014

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.395	ARRA-State Fiscal Stabilization Fund (SFSP) Race-To-The-Top Incentive Grants, Recovery Act
93.600	Head Start
Dollar threshold used to distinguish between Type A and Type B programs:	\$559,003
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Fund Balance Reporting

On the District's 2012-13 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, certain unrestricted resources totaling \$2.1 million were reported as committed fund balance in other governmental funds. District records disclosed that these resources consisted of Federal Emergency Management Agency (FEMA) and insurance recovery moneys, and District personnel indicated that the District anticipates receiving a substantial amount of FEMA moneys to use in this fund for capital projects purposes such as rebuilding schools and ancillary facilities.

Generally accepted accounting principles provide that fund balance classified as committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of a government's highest level of decision-making authority (the Board). However, District records did not evidence that the Board had established by resolution or Board policy any constraints on the use of the \$2.1 million. Additionally, neither the District's five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which the Board intended to use these resources. As such, District records did not evidence any basis for reporting these resources as committed fund balance.

We extended our audit procedures to determine the adjustments necessary to properly report these resources as assigned fund balance in the other governmental funds on the District's financial statements, and District personnel accepted these adjustments. When committed fund balance amounts are misreported, financial statement users may misunderstand the Board's intent regarding fund balances.

Recommendation: The District should enhance its financial reporting procedures to ensure that fund balances are appropriately classified.

Finding No. 2: Compensation and Salary Schedules

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

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be

used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for identifying which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-152.

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

Finding No. 3: Transportation Inventories

At June 30, 2013, District records indicated that the transportation inventory totaled \$161,066, and consisted primarily of parts used to maintain and repair vehicles. The inventory is secured in locked facilities, the service manager and a mechanic perform annual inventory counts that are recorded on count sheets, and the director of transportation reviews and approves the count sheets.

Our physical observation and test of 40 items, totaling \$36,733, disclosed 23 items on the final reported inventory values that were not adjusted by a total of \$11,015 for discrepancies noted during the physical inventory counts. District personnel indicated that these errors occurred, in part, because staff was not adequately trained on the new inventory software. Without appropriate accountability over transportation inventory, there is an increased risk of theft or inappropriate use of inventories without timely detection.

Recommendation: The District should enhance controls to ensure that transportation inventory is appropriately recorded in the general ledger and that physical inventory counts are accurate, reconciled to the District's general ledger, and discrepancies thoroughly investigated and resolved.

Finding No. 4: Facilities Management

The District's facilities management department (department) is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. In addition, department personnel perform heating, ventilating, air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the department employed 43 full-time employees, and the department's operating cost was \$3.7 million. Also, during the fiscal year, the District had expenditures totaling \$18.3 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan approved by the Board on September 24, 2013, the District planned to spend \$40.3 million on renovation projects and \$27.7 million on maintenance projects over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$538.8 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 18 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and

efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities management department employees are achieved. While our review indicated that facilities management procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the Professional Service Selection Process, and when the project is ready to begin, the District amends the contract to a guaranteed maximum price. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by department personnel based on safety and suitability priorities, although some of these jobs are outsourced to local vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques to determine which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The department has established short-term and long-term goals and, based on our inquiry and review of District records, District procedures included consideration of whether construction and maintenance projects met applicable building codes, safety standards, and projected completion dates. However, construction and maintenance goals over accountability for the department could be enhanced. For example, one of the department goals included providing the best building at the best price possible. Examples of department goals included providing a quality environment for teaching and a safe environment for all. However, department goals did not always identify cost-effectiveness or efficiency outcomes. To adequately establish outcome measures, the department could set goals such as completing construction projects or maintenance-related jobs that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

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

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

Finding No. 5: 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 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 2012-13 fiscal year, the District had LCI Fund expenditures totaling \$12.8 million, and transfers totaling \$4.9 million, to the General Fund. We tested LCI Fund expenditures totaling \$ 11.1 million, and reviewed support for all transfers, to determine their propriety. Our tests disclosed \$425,490.15 of LCI Fund transfers to the General Fund for purposes that did not appear to be authorized by Section 1011.71, Florida Statutes, as follows:

Description	Amount
Salaries and Benefits for Information Technology Personnel (1)	\$ 88,701.68
Salaries and Benefits for Maintenance Personnel (2)	288,941.04
Fuel Usage (3)	42,452.93
Pest Control (4)	5,394.50
Total	\$ 425,490.15

Notes:

- (1) District personnel indicated that the costs were for the salaries and benefits of three technology assistants who provide support to teachers and other school personnel in the maintenance and use of technology. However, the job description of these employees indicate the employees are responsible for loading or installing software on school-based computer workstations and assist District technology personnel in maintaining and troubleshooting basic computer systems. District records, such as personnel activity reports, were not maintained to evidence that all activities performed by these employees represented allowable uses of ad valorem tax levy proceeds.
- (2) District personnel indicated that these costs were for the salaries and benefits of the Director of Maintenance and Operations, three administrative assistants, and an office assistant. The Director provides services such as leadership in coordinating and supervising construction, plant operations, maintenance, and emergency preparedness. However, the job description of the Director indicates that duties include supervising the manager of plant operations, while the administrative and office assistants' job duties include support in plant operations. District records, such as personnel activity reports, were not maintained to evidence that the activities performed by these employees represented allowable uses of ad valorem tax levy proceeds.
- (3) Fuel usage costs include energy services, such as gasoline and diesel for maintenance vehicles. However, these costs are not allowable uses of ad valorem tax levy proceeds.
- (4) Pest control costs include other purchased services and repair and maintenance, such as bee removal at a high school and termite treatment at the administrative building. However, these costs are not allowable uses of ad valorem tax levy proceeds.

These costs represent questioned costs of ad valorem tax levy proceeds. Without adequate controls to ensure that ad valorem tax levy proceeds are expended only 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. Such controls should include District records, such as personnel activity reports, to evidence the allowable activities being funded from ad valorem tax levy proceeds. In addition, the District should document to the Florida Department of Education the allowability of the \$425,490.15 of questioned costs or restore this amount to the LCI Fund.

Finding No. 6: 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. Educational methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes the requirements

for VIPs and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of student participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District had written procedures addressing VIP student eligibility, VIP student progression requirements, VIP student mandated testing, and other procedures related to VIPs; however, the procedures could be expanded to include other VIP statutory requirements, such as mandatory provisions in provider contracts, providing computing resources and instructional materials to eligible students, and providing timely written parental notifications of VIP options. The procedures could also be expanded to provide guidance on monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require school district personnel to confirm Florida teaching certificates with the FDOE and survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services.

Comprehensive written policies and procedures would promote compliance with the VIP statutory requirements and evidence management's expectations of key personnel and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of District noncompliance and control deficiencies identified in Finding Nos. 7 through 11.

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

Finding No. 7: Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. For example, contracts must require that approved providers be responsible for all debts of the VIP if the contract is not renewed or is terminated and requires the approved provider to comply with all requirements of Section 1002.45, Florida Statutes. The District entered into a contract with a FDOE-approved VIP provider; however, the contract contained deficiencies and lacked some statutorily required provisions as discussed below:

- The contract did not include an agreed-upon student-teacher ratio. This is contrary to Section 1002.45(2)(a)⁷¹, Florida Statutes (2012), which requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes. Further, the District did not establish a student-teacher ratio threshold for the contracted VIP classes to allow for evaluations of the reasonableness of such ratios. Without establishing such ratios or ratio thresholds in the contracts or documenting evaluations of the reasonableness of the ratios, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.
- The contract lacked a provision requiring the provider to be responsible for all debts of the VIP if the contract was not renewed or was terminated, contrary to Section 1002.45(4)(e), Florida Statutes. The inclusion of such a provision would strengthen the District's position in the event of a challenge by a provider.

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

⁷¹ Renumbered as Section 1002.45(2)(a)8., Florida Statutes.

Finding No. 8: Computing Resources and Instructional Materials

Section 1002.45(3)(c), Florida Statutes, requires that each student enrolled in a VIP to be provided with all necessary instructional materials. In addition, Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home. District procedures for providing instructional materials to students and communicating the availability of, and providing, computing resources to qualified VIP students could be enhanced as follows:

- District personnel indicated that they relied upon the VIP provider to ensure that all necessary instructional materials were appropriately delivered to the VIP students, without independently verifying delivery.
- District personnel indicated that they verbally notified counselors and they have been so accommodating that students and parents know of the availability of computing resources; however, District records did not evidence direct communication with families. Consequently, the District provided no computer resources to any of the 58 full-time or 175 part-time enrolled students that participated in VIP courses.

Without independently verifying delivery of VIP instructional materials and appropriately notifying parents of students in VIPs of the availability of computer equipment and Internet access, students may not have the appropriate resources required to successfully complete VIP courses.

Recommendation: The District should establish documented procedures to ensure that all VIP students receive instructional materials and qualified VIP students are provided computing resources.

Finding No. 9: Written Parental Notifications

Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in a VIP. Further, Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely written notification of the open enrollment periods for their VIPs.

District personnel indicated that the District provided information on its Web site about VIPs to parents and students. While this method indicates efforts by District personnel to communicate with parents and students about its VIP options for the 2012-13 school year, District records did not evidence that written notifications were provided directly to parents of students regarding the options and associated open enrollment periods.

Without evidence that written notification was provided directly to parents, some parents may not have been informed of the available VIP options and enrollment periods, contrary to State law and potentially result in limited student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure records are maintained evidencing timely written notifications to parents about student opportunities to participate in VIPs and open enrollment period dates.

Finding No. 10: Provider Background Screenings

Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State. The District contracted with a FDOE-approved provider, which is another school district.

The District indicated that since the other provider was a school district, under the same requirements of the District for performing background screenings, the District did not obtain a list from the provider to confirm the dates of the required background screenings of the provider's employees. However, without effective controls to ensure that background screenings of VIP provider employees are performed, there is an increased risk that these individuals may have backgrounds that are inappropriate for communicating with students and accessing confidential or sensitive District data and IT resources.

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

Finding No. 11: Student Compulsory Attendance

Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify attendance. Based on testing of District records, the District generally had control procedures to appropriately verify student attendance; however, controls over VIP student attendance could be improved.

As of June 2013, the District reported 175 students enrolled part-time in a contracted Florida Virtual School (FLVS) franchise and its traditional schools documented attendance verification for those students. As of that date, the District also reported 58 students enrolled full-time in VIPs (i.e., 56 students in District VIPs and 2 students in the contracted FLVS franchise); however, District records did not evidence verification of daily attendance for those 58 students.

Absent effective procedures to verify student attendance and records documenting such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.

Recommendation: The District should establish procedures to require a documented verification that students enrolled with contracted VIP providers have complied with compulsory attendance requirements prescribed by law.

Finding No. 12: Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity

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

Without adequate security controls related to user authentication and logging and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding user authentication was communicated to District management in connection with our report Nos. 2010-136 and 2011-152.

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

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Reporting. Expenditures of grant funds are reported through FDOE’s On-Line Grant Reporting System in accordance with reporting and administrative requirements set forth in the FDOE publication titled, *American Recovery and Reinvestment Act (ARRA) Budget Amendment and Quarterly Reporting Instructions*. This publication provides instructions for reporting expenditures of grant funds, submitting or revising budget data, and reporting ARRA-funded jobs.

The District’s March 2013 quarterly report identified \$725,883.07 of Race-to-the-Top (RTTT) program expenditures to the FDOE, which was \$25,568.42 less than the \$751,451.49 recorded in the District’s accounting records, and the District continued to under-report this amount of RTTT expenditures on the June and September 2013 quarterly reports. District personnel indicated that this error occurred because additional expenditures were recorded for the period after the expenditures were reported. As Federal Web sites provide public access to ARRA Federal spending and depend on the reliability of financial reporting, it is essential that the District accurately report Federal ARRA expenditure information.

Recommendation: The District should enhance its procedures for reporting ARRA expenditures to ensure that amounts reported to the FDOE agree with or reconcile to the District’s accounting records.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous reports. The following table provides information on District recurring audit findings:

Current Fiscal Year Finding Numbers	Financial and Federal Single Audit		Operational	
	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2006-07 Fiscal Year Audit Report and Finding Numbers
2	NA	NA	Audit Report No. 2011-152, Finding No. 3	NA
12	NA	NA	Audit Report No. 2011-152, Finding No. 6	Audit Report No. 2010-136, Finding No. 5

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

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
Purvis, Gray & Company, LLP		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

Douglas K. Whittaker, Ed.D.
Superintendent



School Board

Ian Vincent, Chairman
Lee Swift, Vice-Chairman
Aileen Miller
Barbara Rendell
Bob Segur

March 14, 2014

Mr. David Martin
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin:

We have received the list of preliminary and tentative audit findings and hereby submit our written response as required by Section 11.45(7)(d), Florida Statute.


During this year we will review and determine the appropriate course of action needed to address each of the conditions or deficiencies reported to us. We will endeavor to develop and adopt the rules, policies and procedures that may be necessary to accomplish the recommendations outlined in this report for those findings that we conclude merit consideration based on the time, effort and cost required to implement them.

For the record we disagree with the assertion in finding 5 that \$425,490.15 of Local Capital Improvement Taxes did not appear to be authorized by Section 1011.71, Florida Statutes. We find it totally unreasonable to disallow the fuel cost for the operation of maintenance vehicles without which Maintenance personnel could not perform their jobs in an efficient manner. Just as with an outside vendor contracted to repair or perform preventive maintenance on school buildings the costs associated with traveling to and from the job site are inherently part of the total cost incurred necessary to complete the task. We further believe that the vast majority of the questioned costs referenced in finding 5 were for direct administrative oversight and clerical support of construction, maintenance and repair projects specifically authorized under the statute. We do not disagree that a portion of the questioned cost may need to be restored and to that end we will develop and provide the Florida Department of Education documentation supporting a cost allocation methodology for salaries and benefits of personnel whose job descriptions include responsibilities outside of those permitted to be paid from Local Capital Improvement Taxes.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Thank you for the professional manner in which this audit was conducted. We appreciate the insight that your staff provides to us which helps us to continuously improve the operations of Charlotte County Public Schools.

Sincerely,



Dr. Doug Whittaker, Ed D
Superintendent of Schools

/cc: file