REPORT NO. 2015-175
MARCH 2015

# ST. JOHNS COUNTY DISTRICT SCHOOL BOARD

## Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

## BOARD MEMBERS AND SUPERINTENDENT

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

| | District No. |
|---|---|
| Beverly Slough | 1 |
| Thomas L. Allen, Jr., Chair to 11-18-13 | 2 |
| Bill Mignon, Vice Chair to 11-18-13, Chair from 11-19-13 | 3 |
| William R. Fehling, Vice Chair from 11-19-13 | 4 |
| Patrick T. Canan | 5 |

Dr. Joseph G. Joyner, 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 Megan Evans, and the audit was supervised by Randy R. Arend, 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 Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

# ST. JOHNS 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: Controls over monitoring bus drivers could be improved.**

**Finding No. 2: The Board had taken no official action to establish the health self-insurance plan's target net position balance or funding level and the plan reported an operating loss of $2.5 million for the 2013-14 fiscal year.**

**Finding No. 3: The District did not ensure that plan participants were removed timely from the District's health insurance plan upon termination of enrollment or nonpayment of premiums.**

**Finding No. 4: The District did not adequately monitor claims payments processed, and excess insurance reimbursements received, by its service agent.**

**Finding No. 5: Controls over contractual services and related payments could be enhanced.**

**Finding No. 6: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written procedures.**

**Finding No. 7: District records did not evidence that timely, written notifications were provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.**

**Finding No. 8: Procedural enhancements were needed to ensure that the required number and types of VIP options are offered.**

**Finding No. 9: The VIP provider contract did not include certain statutorily required or necessary provisions.**

**Finding No. 10: Some inappropriate or unnecessary information technology (IT) access privileges existed.**

**Finding No. 11: District IT security controls related to 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 Special Education Cluster and Improving Teacher Quality 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.**

## Audit Objectives and Scope

**Our audit objectives were to determine whether the St. Johns 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, 2014. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.**

**Audit Methodology**

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

# AUDITOR GENERAL
## STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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111 West Madison Street
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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the St. Johns County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the St. Johns County District School Board as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in note II to the financial statements, the District included six component units in the financial statements for the 2013-14 fiscal year that were excluded from the financial statements for the 2012-13 fiscal year, which affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. In addition, as discussed in Note II to the financial statements, the District adopted new accounting guidance GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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 District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.** The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 27, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the St. Johns County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2014. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

## FINANCIAL HIGHLIGHTS

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

- The District's assets exceeded its liabilities and deferred inflows of resources at June 30, 2014, by $443,728,257 (net position). After deducting investment in capital assets (net of related debt) and restricted net position, the District had a deficit unrestricted net position of $19,927,295.
- In total, net position increased $2,610,626, which represents less than a 1 percent increase from the 2012-13 fiscal year.
- General revenues totaled $280,385,303, or 87 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $40,231,797, or 13 percent.
- Expenses totaled $318,006,474; only $40,231,797 of these expenses was offset by program specific revenues, with the remainder paid from general revenues. Total revenues exceeded total expenses by $2,610,626.
- The total assigned and unassigned portion of the General Fund balance, which represents net current financial resources available for general appropriation by the Board, was $48,585,438 at June 30, 2014, or 21 percent of total General Fund revenues.
- The District's capital asset-related long-term debt decreased by a net amount of $13,170,952, mainly because of the redemption of debt principal.
- The District's Health and Hospitalization – Group Medical Self-Insurance Fund continues to have a deficit net position of $7,295,687. To improve the fund's net position, effective July 1, 2014, the District increased the combined employer contribution and employee premium by a total of 12 percent, and increased the retiree premium by 18 percent. The District also made changes to deductibles and out-of-pocket maximums effective January 1, 2015. The District is monitoring the deficit and will research additional plan changes for the Board to consider for implementation.

## OVERVIEW OF FINANCIAL STATEMENTS

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

### Government-wide Financial Statements

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

The government-wide statements present the District's activities in two 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 aggregate financial information for seven separate legal entities in this report: the ABLE School, Inc., Saint Augustine Montessori Community, Inc., St. Paul School of Excellence, Inc., the Therapeutic Learning Center Charter School and the St. Johns Community Campus Charter School operated by The ARC of the St. Johns, Inc.; the First Coast Technical Institute, Inc., d/b/a First Coast Technical College, charter technical career center; and the St. Johns County Education Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

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

### Fund Financial Statements

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

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

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

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

Economic Stimulus Fund, Capital Projects – Other Capital Projects Fund, and Capital Projects – ARRA Economic Stimulus Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund and Special Revenue – Federal Economic Stimulus Fund 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. The District maintains internal service funds to account for its health and hospitalization self-insurance programs, which includes group medical, dental, and vision coverages, and its workers' compensation liability program. The District's internal service funds have been included within governmental activities in the government-wide financial statements because the services predominantly benefit the District's governmental activities.

**Fiduciary Funds**: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as school and 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 over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2014, compared to net position as of June 30, 2013:

**Net Position, End of Year**

| | Governmental Activities | |
|---|---|---|
| | 6-30-14 | 6-30-13 |
| Current and Other Assets | $ 185,728,171 | $ 200,839,148 |
| Capital Assets | 528,236,075 | 507,758,002 |
| **Total Assets** | 713,964,246 | 708,597,150 |
| Long-Term Liabilities | 221,323,535 | 230,454,286 |
| Other Liabilities | 34,785,101 | 37,025,233 |
| **Total Liabilities** | 256,108,636 | 267,479,519 |
| **Deferred Inflows of Resources** | 14,127,353 | |
| Net Position: | | |
| Net Investment in Capital Assets | 400,396,915 | 385,966,274 |
| Restricted | 63,258,637 | 63,672,508 |
| Unrestricted (Deficit) | (19,927,295) | (8,521,151) |
| **Total Net Position** | $ 443,728,257 | $ 441,117,631 |

The largest portion of the District's net position (90 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 represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing $24,904,950 in compensated absences payable and $53,962,057 in other postemployment benefit obligations.

The District's net position increased by $2,610,626 during the 2013-14 fiscal year. The increase represents the degree to which ongoing revenues have exceeded ongoing expenses.

The following is a summary of the District's operating results for the fiscal year ended June 30, 2014, compared to operating results for the fiscal year ended June 30, 2013:

**Operating Results for the Fiscal Year Ended**

| | Governmental Activities | |
|---|---|---|
| | 6-30-14 | 6-30-13 |
| Program Revenues: | | |
| Charges for Services | $ 21,860,144 | $ 20,631,359 |
| Operating Grants and Contributions | 12,282,754 | 11,740,415 |
| Capital Grants and Contributions | 6,088,899 | 12,612,092 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 110,543,223 | 109,605,169 |
| Property Taxes, Levied for Debt Service | 590 | 161 |
| Property Taxes, Levied for Capital Projects | 27,436,618 | 26,586,165 |
| Impact Fees | 14,353,236 | |
| Grants and Contributions Not Restricted to Specific Programs | 120,979,009 | 105,766,468 |
| Unrestricted Investment Earnings | 355,206 | 358,579 |
| Miscellaneous | 6,717,421 | 4,924,050 |
| **Total Revenues** | 320,617,100 | 292,224,458 |
| Functions/Program Expenses: | | |
| Instruction | 169,143,833 | 157,997,830 |
| Student Personnel Services | 18,267,087 | 16,255,387 |
| Instructional Media Services | 4,873,199 | 4,624,282 |
| Instruction and Curriculum Development Services | 5,914,184 | 6,650,112 |
| Instructional Staff Training Services | 5,415,067 | 4,589,316 |
| Instruction Related Technology | 5,809,924 | 5,348,639 |
| School Board | 984,863 | 811,347 |
| General Administration | 984,561 | 857,608 |
| School Administration | 15,758,884 | 14,196,372 |
| Facilities Acquisition and Construction | 11,944,402 | 11,401,141 |
| Fiscal Services | 1,951,820 | 1,885,777 |
| Food Services | 11,294,658 | 10,942,673 |
| Central Services | 12,079,000 | 11,439,124 |
| Student Transportation Services | 13,480,462 | 12,789,656 |
| Operation of Plant | 21,103,349 | 20,031,090 |
| Maintenance of Plant | 8,383,597 | 8,088,888 |
| Administrative Technology Services | 669,036 | 915,741 |
| Community Services | 3,466,553 | 3,429,051 |
| Unallocated Interest on Long-Term Debt | 6,481,995 | 5,130,125 |
| **Total Functions/Program Expenses** | 318,006,474 | 297,384,159 |
| **Change in Net Position** | 2,610,626 | (5,159,701) |
| **Net Position - Beginning** | 441,117,631 | 446,277,332 |
| **Net Position - Ending** | $ 443,728,257 | $ 441,117,631 |

The majority of the District's revenue for current operations are provided through the State's Florida Education Finance Program (FEFP), State categorical educational programs, and local property taxes. These revenues are included in the general revenues, which provide approximately 87 percent of total revenues, whereas program revenues provide approximately 13 percent. The majority of program revenues (94 percent) are in the facilities acquisition and construction, food services, central services, student transportation services, and community services activities.

The FEFP formula is used to allocate State revenue sources for current District operations, and utilizing student enrollment data, and is designed to maintain equity in funding across all Florida school districts considering funding ability based on the local property tax base. Student full-time equivalent (FTE) enrollment increased by 921 students, from 32,351 in the 2012-13 fiscal year to 33,272 in the 2013-14 fiscal year. Grants and contributions not restricted to specific programs increased by $15,212,541, or 14 percent, as compared to the prior fiscal year, mainly because of an increase in FEFP funding.

Capital grants and contributions decreased $6,523,193, or 52 percent. These revenues are primarily received from the State and are for the acquisition, construction, and maintenance of educational facilities. The decrease in funding is due mainly to $14,353,236 in educational impact fee revenues being reclassified from program revenues to general revenues, offset by a $6,000,000 State Public Education Capital Outlay appropriation received in the 2013-14 fiscal year.

Instructional activities represent the majority of the District's expenses, totaling approximately 53 percent of total governmental expenses in both the 2012-13 and 2013-14 fiscal years. Instruction expenses increased by $11,146,003, or 7 percent, mainly as a result of hiring additional teachers to address the increase in student enrollment and salary increases. Overall, total expenses increased $20,622,315, or 7 percent, as compared to total revenues, which increased $28,392,642, or 10 percent.

## 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 $27,605,164 during the fiscal year to $136,265,914 at June 30, 2014. Of the total fund balance, $3,719,159, or 3 percent, is unassigned; $703,140, or 1 percent, is nonspendable; $76,893,360, or 56 percent, is restricted; $10,083,976, or 7 percent, is committed; and $44,866,279, or 33 percent, is assigned.

### Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, total assigned and unassigned fund balance is $48,585,438, while the total fund balance is $59,630,403. For the 2013-14 fiscal year, total fund balance decreased by $7,794,640. This decrease was anticipated as the District intentionally drew down on its fund balance when developing its 2013-14 budget plan.

Key factors impacting these changes are as follows:

- Total revenues increased by $17,786,543, or 8 percent, mainly from an increase in FEFP revenues.
- Total expenditures increased by $21,221,158, or 9 percent, due mainly to increased salary and benefit costs.

- Total expenditures exceeded total revenues and net other financing sources, by $7,794,640, due mainly to an increase in salary and benefit costs and a transfer to the District's Health and Hospitalization – Group Medical Self-Insurance Fund.

The Special Revenue – Federal Economic Stimulus Fund is used to account for ARRA and other Federal stimulus funding. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. For the 2013-14 fiscal year, revenues and expenditures totaled $800,596 each.

The Debt Service – Other Debt Service Fund is used to account for financial resources used to pay debt service principal, interest, and related costs for the certificates of participation. For the 2013-14 fiscal year, all available resources were used for current debt-related expenditures. The total fund balance decreased by $233 in the current fiscal year to $26,917, at June 30, 2014.

The Debt Service – ARRA Economic Stimulus Fund is used to account for the financial resources used to service principal, interest, and related costs for the Qualified School Construction Bonds (QSCB). The fund balance increased by $941,206 from transfers in from the Capital Projects – Local Capital Improvement Fund and investment interest for the accumulation of resources for the lump sum QSCB principal payment in the 2027-28 fiscal year.

The Capital Projects – Other Capital Projects Fund is mainly used to account for the financial resources received from local impact fees, certificates of participation proceeds, and other miscellaneous sources. The total fund balance decreased by $19,164,545 to $52,999,559, due mainly to capital outlay expenditures for two new schools, Patriot Oaks Academy and Valley Ridge Academy.

The Capital Projects – ARRA Economic Stimulus Fund is used to account for the financial resources of the Qualified School Construction Bonds, Series 2010-QSCB. The remaining proceeds, totaling $722,226, were used to partially fund the construction of Valley Ridge Academy.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2013-14 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of $14,487,344. At the same time, final appropriations increased by $10,179,412 from the original budgeted amount. Budget revisions were necessary to recognize revenues and expenditures related to certain day care and extended day care programs, to increase instructional salaries and benefits costs, and to adjust planned expenditures based on actual resource needs.

Actual revenues are in line with the final budgeted amounts. Actual expenditures are $23,372,499 less than anticipated, mainly because instruction, facilities acquisition and construction, community services day care and extended day care program, operation of plant, and salary and benefit expenditures were less than planned. Also, positive budget balances include amounts assigned for budget shortfalls, medical plan recovery, and other District and local programs and services.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, is $528,236,075 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. Major capital assets activity during the 2013-14 fiscal year included construction in progress toward completion of the new Patriot Oaks Academy and Valley Ridge Academy K-8 schools.

Additional information on the District's capital assets can be found in notes I.F.5 and IV.E to the financial statements.

### Long-Term Debt

At June 30, 2014, the District has total long-term debt outstanding of $141,721,000 related to the construction and acquisition of capital assets. This amount is comprised of $135,260,000 of Certificates of Participation and $6,461,000 of State School Bonds. During the fiscal year, the District's long-term debt decreased a net amount of $13,170,952, or 9 percent, mainly from the redemption of debt principal.

Additional information on the District's long-term debt can be found in notes I.F.6 through IV.K to the financial statements.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, St. Johns County District School Board, 40 Orange Street, St. Augustine, FL 32084.

# BASIC FINANCIAL STATEMENTS

***ST. JOHNS COUNTY***
***DISTRICT SCHOOL BOARD***
***STATEMENT OF NET POSITION***
***June 30, 2014***

| | Primary Government Governmental Activities | Component Units |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 128,096,384 | $ 3,106,344 |
| Restricted Cash and Cash Equivalents | 34,439,863 | |
| Investments | 153,713 | 54,566 |
| Accounts Receivable | 577,263 | 531,110 |
| Due from Primary Government | | 108,638 |
| Due from Component Units | 159,511 | |
| Due from Other Agencies | 7,223,287 | |
| Land Contribution Receivable | 14,127,353 | |
| Prepaid Items | 247,657 | 44,937 |
| Deposits Receivable | | 6,121 |
| Inventories | 703,140 | 55,771 |
| Capital Assets: | | |
| Nondepreciable Capital Assets | 74,934,103 | |
| Depreciable Capital Assets, Net | 453,301,972 | 2,649,299 |
| **TOTAL ASSETS** | 713,964,246 | 6,556,786 |
| **LIABILITIES** | | |
| Salaries and Benefits Payable | 1,936,827 | 56,129 |
| Payroll Deductions and Withholdings | 730,408 | |
| Accounts Payable | 7,239,110 | 171,119 |
| Matured Certificates of Participation Payable | 12,530,000 | |
| Matured Interest Payable | 2,709,182 | |
| Construction Contracts Payable | 5,115,467 | |
| Construction Contracts Payable - Retainage | 1,278,990 | |
| Due to Primary Government | | 159,511 |
| Due to Component Units | 108,638 | |
| Due to Other Agencies | 80,383 | |
| Deposits Payable | 257,508 | |
| Unearned Revenue | | 167,789 |
| Estimated Health Insurance Claims Payable | 2,798,588 | |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 15,568,922 | 262,363 |
| Portion Due After One Year | 205,754,613 | 291,703 |
| **TOTAL LIABILITIES** | 256,108,636 | 1,108,614 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Unavailable Land Contribution | 14,127,353 | |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 400,396,915 | 2,523,310 |
| Restricted for: | | |
| State Required Carryover Programs | 403,825 | |
| Debt Service | 3,177,611 | |
| Capital Projects | 58,317,437 | |
| Food Service | 1,258,623 | |
| Other Purposes | 101,141 | 327,375 |
| Unrestricted | (19,927,295) | 2,597,487 |
| **TOTAL NET POSITION** | $ 443,728,257 | $ 5,448,172 |

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

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

| | Expenses | Program Revenues | | |
|---|---|---|---|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Functions/Programs** | | | | |
| **Primary Government** | | | | |
| **Governmental Activities:** | | | | |
| Instruction | $ 169,143,833 | $ 899,448 | $ | $ |
| Student Personnel Services | 18,267,087 | | | |
| Instructional Media Services | 4,873,199 | | | |
| Instruction and Curriculum Development Services | 5,914,184 | | | |
| Instructional Staff Training Services | 5,415,067 | | | |
| Instruction Related Technology | 5,809,924 | | | |
| School Board | 984,863 | | | |
| General Administration | 984,561 | | | |
| School Administration | 15,758,884 | | | |
| Facilities Acquisition and Construction | 11,944,402 | | | 4,376,034 |
| Fiscal Services | 1,951,820 | | | |
| Food Services | 11,294,658 | 7,601,358 | 4,263,898 | |
| Central Services | 12,079,000 | 8,669,662 | | |
| Student Transportation Services | 13,480,462 | 637,884 | 8,018,856 | |
| Operation of Plant | 21,103,349 | | | |
| Maintenance of Plant | 8,383,597 | | | |
| Administrative Technology Services | 669,036 | | | |
| Community Services | 3,466,553 | 4,051,792 | | |
| Unallocated Interest on Long-Term Debt | 6,481,995 | | | 1,712,865 |
| **Total Primary Government** | $ 318,006,474 | $ 21,860,144 | $ 12,282,754 | $ 6,088,899 |
| **Component Units** | | | | |
| Charter Schools/Foundation | $ 11,951,498 | $ 2,836,244 | $ 1,515,428 | $ 297,278 |

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Debt Service
Property Taxes, Levied for Capital Projects
Impact Fees
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous

**Total General Revenues**

**Change in Net Position**

Net Position - Beginning
Adjustment to Beginning Net Position

**Net Position - Beginning, as Restated**

**Net Position - Ending**

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

| Net (Expense) Revenue and Changes in Net Position | |
|---|---|
| Primary Government | |
| Governmental Activities | Component Units |
| | |
| $ (168,244,385) | $ |
| (18,267,087) | |
| (4,873,199) | |
| (5,914,184) | |
| (5,415,067) | |
| (5,809,924) | |
| (984,863) | |
| (984,561) | |
| (15,758,884) | |
| (7,568,368) | |
| (1,951,820) | |
| 570,598 | |
| (3,409,338) | |
| (4,823,722) | |
| (21,103,349) | |
| (8,383,597) | |
| (669,036) | |
| 585,239 | |
| (4,769,130) | |
| (277,774,677) | |
| | (7,302,548) |
| 110,543,223 | |
| 590 | |
| 27,436,618 | |
| 14,353,236 | |
| 120,979,009 | 7,346,133 |
| 355,206 | 4,090 |
| 6,717,421 | 131,375 |
| 280,385,303 | 7,481,598 |
| 2,610,626 | 179,050 |
| 441,117,631 | 743,600 |
| | 4,525,522 |
| 441,117,631 | 5,269,122 |
| $ 443,728,257 | $ 5,448,172 |

**ST. JOHNS COUNTY**
**DISTRICT SCHOOL BOARD**
**BALANCE SHEET - GOVERNMENTAL FUNDS**
**June 30, 2014**

| | General Fund | Special Revenue - Federal Economic Stimulus Fund | Debt Service - Other Debt Service Fund | Debt Service - ARRA Economic Stimulus Fund |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Cash Equivalents | $ 59,100,924 | $ 916 | $ | $ |
| Restricted Cash and Cash Equivalents | | | 15,261,115 | 2,823,559 |
| Investments | | | | |
| Accounts Receivable | 222,452 | | | |
| Due from Other Funds | 5,341,252 | | | |
| Due from Other Agencies | 217,952 | 148,478 | | |
| Due from Component Units | 159,511 | | | |
| Prepaid Items | | | | |
| Inventories | 456,023 | | | |
| **TOTAL ASSETS** | $ 65,498,114 | $ 149,394 | $ 15,261,115 | $ 2,823,559 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Salaries and Benefits Payable | $ 1,841,989 | $ 6,804 | $ | $ |
| Payroll Deductions and Withholdings | 694,614 | 2,197 | | |
| Accounts Payable | 3,250,672 | 1,008 | | |
| Matured Certificates of Participation Payable | | | 12,530,000 | |
| Matured Interest Payable | | | 2,704,198 | |
| Construction Contracts Payable | | | | |
| Construction Contracts Payable - Retainage | | | | |
| Due to Other Funds | 84 | 137,603 | | |
| Due to Other Agencies | 55,418 | 1,782 | | |
| Due to Component Units | 24,934 | | | |
| Deposits Payable | | | | |
| **Total Liabilities** | 5,867,711 | 149,394 | 15,234,198 | |
| Fund Balances: | | | | |
| Nonspendable | 456,023 | | | |
| Restricted | 504,966 | | 26,917 | 2,823,559 |
| Committed | 10,083,976 | | | |
| Assigned | 44,866,279 | | | |
| Unassigned | 3,719,159 | | | |
| **Total Fund Balances** | 59,630,403 | | 26,917 | 2,823,559 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 65,498,114 | $ 149,394 | $ 15,261,115 | $ 2,823,559 |

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

| Capital Projects - Other Capital Projects Fund | Capital Projects - ARRA Economic Stimulus Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| $ 42,322,218 | $ | $ 17,970,592 | $ 119,394,650 |
| 16,176,783 | | 178,406 | 34,439,863 |
| | | 153,713 | 153,713 |
| | | 11,156 | 233,608 |
| | | | 5,341,252 |
| 1,360,514 | | 5,494,294 | 7,221,238 |
| | | | 159,511 |
| | | 247,657 | 247,657 |
| | | 247,117 | 703,140 |
| $ 59,859,515 | $ 0 | $ 24,302,935 | $ 167,894,632 |
| | | | |
| $ | $ | $ 88,034 | $ 1,936,827 |
| | | 33,597 | 730,408 |
| 45,866 | | 526,806 | 3,824,352 |
| | | | 12,530,000 |
| | | 4,984 | 2,709,182 |
| 5,011,524 | | 103,943 | 5,115,467 |
| 1,278,990 | | | 1,278,990 |
| 523,576 | | 2,395,700 | 3,056,963 |
| | | 23,183 | 80,383 |
| | | 83,704 | 108,638 |
| | | 257,508 | 257,508 |
| 6,859,956 | | 3,517,459 | 31,628,718 |
| | | | |
| | | 247,117 | 703,140 |
| 52,999,559 | | 20,538,359 | 76,893,360 |
| | | | 10,083,976 |
| | | | 44,866,279 |
| | | | 3,719,159 |
| 52,999,559 | | 20,785,476 | 136,265,914 |
| $ 59,859,515 | $ 0 | $ 24,302,935 | $ 167,894,632 |

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

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 136,265,914 |
| 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. | | |
| Nondepreciable Capital Assets | $ 74,934,103 | |
| Depreciable Capital Assets | 453,301,972 | 528,236,075 |
| 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, less depreciable capital assets, net of accumulated depreciation. | | |
| Total Assets - Internal Service Funds | 9,194,728 | |
| Less, Total Liabilities - Internal Service Funds | (9,065,843) | |
| Less, Depreciable Assets, Net | (314,610) | (185,725) |
| Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of: | | |
| Bonds Payable | 6,461,000 | |
| Compensated Absences Payable | 24,904,950 | |
| Certificates of Participation Payable | 135,260,000 | |
| Other Postemployment Benefits Payable | 53,962,057 | (220,588,007) |
| **Net Position - Governmental Activities** | | $ 443,728,257 |

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

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

| | General Fund | Special Revenue - Federal Economic Stimulus Fund | Debt Service - Other Debt Service Fund | Debt Service - ARRA Economic Stimulus Fund |
|---|---|---|---|---|
| **Revenues** | | | | |
| Intergovernmental: | | | | |
| Federal Direct | $ 241,660 | $ | $ | $ 727,563 |
| Federal Through State and Local | | 800,596 | | |
| State | 115,731,291 | | | |
| Local: | | | | |
| Property Taxes | 110,543,223 | | | |
| Impact Fees | | | | |
| Charges for Services - Food Service | | | | |
| Miscellaneous | 9,971,202 | | 46 | 30 |
| Total Local Revenues | 120,514,425 | | 46 | 30 |
| **Total Revenues** | 236,487,376 | 800,596 | 46 | 727,593 |
| **Expenditures** | | | | |
| Current - Education: | | | | |
| Instruction | 148,680,522 | 73,871 | | |
| Student Personnel Services | 14,453,353 | | | |
| Instructional Media Services | 4,428,460 | | | |
| Instruction and Curriculum Development Services | 3,472,261 | 148,050 | | |
| Instructional Staff Training Services | 3,250,587 | 457,680 | | |
| Instruction Related Technology | 5,444,025 | | | |
| School Board | 948,786 | | | |
| General Administration | 375,648 | 7,583 | | |
| School Administration | 14,283,564 | | | |
| Facilities Acquisition and Construction | 3,143,470 | | | |
| Fiscal Services | 1,789,279 | | | |
| Food Services | | | | |
| Central Services | 2,959,688 | 113,412 | | |
| Student Transportation Services | 11,666,743 | | | |
| Operation of Plant | 20,066,235 | | | |
| Maintenance of Plant | 7,798,237 | | | |
| Administrative Technology Services | 636,452 | | | |
| Community Services | 3,104,992 | | | |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | 19,792 | | | |
| Other Capital Outlay | 626,521 | | | |
| Debt Service: | | | | |
| Principal | | | 12,530,000 | |
| Interest and Fiscal Charges | | | 5,417,162 | 793,667 |
| **Total Expenditures** | 247,148,615 | 800,596 | 17,947,162 | 793,667 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (10,661,239) | | (17,947,116) | (66,074) |
| **Other Financing Sources (Uses)** | | | | |
| Transfers In | 5,771,542 | | 17,946,883 | 1,007,280 |
| Bonds and Refunding Bonds Issued | | | | |
| Premium on Bonds and Refunding Bonds Issued | | | | |
| Payments to Refunding Escrow Agent | | | | |
| Insurance Loss Recoveries | 35,107 | | | |
| Transfers Out | (2,940,050) | | | |
| **Total Other Financing Sources (Uses)** | 2,866,599 | | 17,946,883 | 1,007,280 |
| **Net Change in Fund Balances** | (7,794,640) | | (233) | 941,206 |
| Fund Balances, Beginning | 67,425,043 | | 27,150 | 1,882,353 |
| **Fund Balances, Ending** | $ 59,630,403 | $ 0 | $ 26,917 | $ 2,823,559 |

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

| Capital Projects - Other Capital Projects Fund | Capital Projects - ARRA Economic Stimulus Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| $ | $ | $ 999,948 | $ 1,969,171 |
| | | 15,356,323 | 16,156,919 |
| 147,987 | | 7,311,215 | 123,190,493 |
| | | 27,437,208 | 137,980,431 |
| 14,353,236 | | | 14,353,236 |
| | | 7,601,358 | 7,601,358 |
| 2,345,871 | | 292,668 | 12,609,817 |
| 16,699,107 | | 35,331,234 | 172,544,842 |
| 16,847,094 | | 58,998,720 | 313,861,425 |
| | | 6,202,141 | 154,956,534 |
| | | 2,121,796 | 16,575,149 |
| | | | 4,428,460 |
| | | 1,749,784 | 5,370,095 |
| | | 1,262,378 | 4,970,645 |
| | | | 5,444,025 |
| | | | 948,786 |
| | | 567,591 | 950,822 |
| | | | 14,283,564 |
| 662,688 | 25,367 | 7,981,286 | 11,812,811 |
| | | | 1,789,279 |
| | | 10,728,782 | 10,728,782 |
| | | | 3,073,100 |
| | | 86,699 | 11,753,442 |
| | | 145 | 20,066,380 |
| | | | 7,798,237 |
| | | | 636,452 |
| | | 63,276 | 3,168,268 |
| 31,510,468 | 696,859 | 4,045,869 | 36,272,988 |
| | | 3,254,359 | 3,880,880 |
| 66,952 | | 670,000 | 13,266,952 |
| 1,301 | | 351,281 | 6,563,411 |
| 32,241,409 | 722,226 | 39,085,387 | 338,739,062 |
| (15,394,315) | (722,226) | 19,913,333 | (24,877,637) |
| 590 | | | 24,726,295 |
| | | 581,000 | 581,000 |
| | | 92,853 | 92,853 |
| | | (496,437) | (496,437) |
| | | | 35,107 |
| (3,770,820) | | (20,955,475) | (27,666,345) |
| (3,770,230) | | (20,778,059) | (2,727,527) |
| (19,164,545) | (722,226) | (864,726) | (27,605,164) |
| 72,164,104 | 722,226 | 21,650,202 | 163,871,078 |
| $ 52,999,559 | $ 0 | $ 20,785,476 | $ 136,265,914 |

***ST. JOHNS COUNTY***
***DISTRICT SCHOOL BOARD***
***RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***
***For the Fiscal Year Ended June 30, 2014***

| | | |
|---|---|---|
| **Net Change in Fund Balances - Governmental Funds** | | $ (27,605,164) |
| 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 and other capital outlay adjustments, in excess of depreciation expense in the current fiscal year. | | |
| Capital Outlay Expenditures - Governmental Funds | $ 40,153,868 | |
| Depreciation Expense | (17,709,874) | |
| Donations | 259,385 | |
| Return of Donated Land | (2,225,306) | 20,478,073 |
| Issuing long-term bonded debt is an other financing source in the governmental funds, but issuing new debt increases long-term liabilities in the statement of net position. Refunding debt is an other financing use in the governmental funds, but decreases liabilities in the statement of net position. This is the amount of long-term debt that was issued and refunded during the current fiscal year. | | |
| State Board of Education Bonds and Refunding Bonds Issued | (581,000) | |
| State Board of Education Bonds Defeased | 485,000 | (96,000) |
| 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. The following details the amount of long-term debt repaid in the current fiscal year. | | |
| Certificates of Participation Payable | 12,530,000 | |
| Bonds Payable | 670,000 | |
| Obligations Under Capital Lease | 66,952 | 13,266,952 |
| In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. | | (1,236,841) |
| Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. | | (2,650,857) |
| Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities, except that depreciation is reported with governmental activities depreciation expense above. | | 454,463 |
| **Change in Net Position - Governmental Activities** | | $ 2,610,626 |

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

**ST. JOHNS COUNTY**
**DISTRICT SCHOOL BOARD**
**STATEMENT OF NET POSITION -**
**PROPRIETARY FUNDS**
**June 30, 2014**

| | | Governmental Activities - Internal Service Funds |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ | 8,701,734 |
| Accounts Receivable | | 176,335 |
| Due From Other Agencies | | 2,049 |
| **Total Current Assets** | | 8,880,118 |
| Noncurrent Assets: | | |
| Buildings and Fixed Equipment | | 299,292 |
| Less, Accumulated Depreciation | | (57,364) |
| Furniture, Fixtures, and Equipment | | 158,700 |
| Less, Accumulated Depreciation | | (86,018) |
| **Total Noncurrent Assets** | | 314,610 |
| **TOTAL ASSETS** | | 9,194,728 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable | | 3,414,758 |
| Due to Other Funds | | 2,116,969 |
| Estimated Health Insurance Claims Payable | | 2,798,588 |
| **Total Current Liabilities** | | 8,330,315 |
| Noncurrent Liabilities: | | |
| Portion Due Within One Year: | | |
| Estimated Insurance Claims Payable | | 130,090 |
| Portion Due After One Year: | | |
| Estimated Insurance Claims Payable | | 605,438 |
| **Total Noncurrent Liabilities** | | 735,528 |
| **TOTAL LIABILITIES** | | 9,065,843 |
| **NET POSITION** | | |
| Investment in Capital Assets | | 314,610 |
| Unrestricted | | (185,725) |
| **TOTAL NET POSITION** | $ | 128,885 |

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

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

| | Governmental Activities - Internal Service Funds |
|---|---|
| **OPERATING REVENUES** | |
| Insurance Premiums | $ 39,177,359 |
| **OPERATING EXPENSES** | |
| Insurance Claims | 34,375,916 |
| Excess Insurance Premiums | 991,177 |
| Employee Disability Purchased Insurance | 165,430 |
| Fees and Other | 6,147,250 |
| Depreciation | 37,978 |
| **Total Operating Expenses** | 41,717,751 |
| **Operating Loss** | (2,540,392) |
| **NONOPERATING REVENUES** | |
| Interest Revenue | 16,827 |
| **Loss Before Transfers** | (2,523,565) |
| Transfers In | 2,940,050 |
| **Change in Net Position** | 416,485 |
| Total Net Position - Beginning | (287,600) |
| **Total Net Position - Ending** | $ 128,885 |

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

**ST. JOHNS COUNTY**
**DISTRICT SCHOOL BOARD**
**STATEMENT OF CASH FLOWS -**
**PROPRIETARY FUNDS**
**For the Fiscal Year Ended June 30, 2014**

| | Governmental Activities - Internal Service Funds |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Cash Received from Board Funds and Participants | $ 39,177,359 |
| Cash Payments to Suppliers for Goods and Services | (8,229,799) |
| Cash Payments for Insurance Claims | (34,332,088) |
| **Net Cash Used by Operating Activities** | (3,384,528) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfer In | 2,940,050 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest Income | 16,827 |
| **Net Decrease in Cash** | (427,651) |
| Cash, Beginning | 9,129,385 |
| **Cash, Ending** | $ 8,701,734 |

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities:**

| | |
|---|---|
| Operating Loss | $ (2,540,392) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation | 37,978 |
| Changes in Assets and Liabilities: | |
| Accounts Receivable | (120,258) |
| Due from Other Agencies | (2,049) |
| Accounts Payable | 19,446 |
| Due to Other Funds | (823,081) |
| Estimated Insurance Claims Payable | 43,828 |
| **Total Adjustments** | (844,136) |
| **Net Cash Used by Operating Activities** | $ (3,384,528) |

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

# ST. JOHNS COUNTY DISTRICT SCHOOL BOARD STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS June 30, 2014

| | | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash | $ | 3,531,319 |
| Due from Other Funds | | 84 |
| **TOTAL ASSETS** | $ | 3,531,403 |
| **LIABILITIES** | | |
| Due to Other Funds | $ | 167,404 |
| Internal Accounts Payable | | 3,363,999 |
| **TOTAL LIABILITIES** | $ | 3,531,403 |

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

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# NOTES TO FINANCIAL STATEMENTS
# JUNE 30, 2014

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the St. Johns 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 allocated to the various functions.

### B. Reporting Entity

The St. Johns 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 St. Johns County.

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

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

**Blended Component Unit**. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as part of the District. The St. Johns County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note IV.K.1. 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.

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

**Discretely Presented Component Units**. The component unit columns in the government-wide financial statements include the financial data of the District's other component units. A separate column is used to emphasize that they are legally separate from the District. The component unit column consists of the St. Johns County Education Foundation, Inc. (Foundation), a charter technical career center, and five charter schools, as follows:

- **Foundation**. The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to and for the benefit of public prekindergarten through twelfth grade education in St. Johns County. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.
- **Charter Schools/Charter Technical Career Center (Charter Entities)**. The Charter Entities consist of: The ABLE School, Inc., Saint Augustine Montessori Community, Inc., St. Paul School of Excellence, Inc., the Therapeutic Learning Center Charter School and the St. Johns Community Campus Charter School operated by The ARC of the St. Johns, Inc., and the First Coast Technical Institute, Inc., d/b/a First Coast Technical College. The Charter Entities are organized as not-for-profit corporations pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The Charter Entities were established pursuant to Sections 1002.33, Florida Statutes, except that First Coast Technical College was established pursuant to Sections 1002.34, Florida Statutes. The Charter Entities are considered to be component units of the District because the District is financially accountable for the Charter Entities as the District established the Charter Entities by approval of the charters, which is tantamount to the initial appointment of the Charter Entities, and there is the potential for the Charter Entities to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the Charter Entities are public schools, and the District is responsible for the operation, control, and supervision of the public schools within the District.

The financial data reported on the accompanying statements was derived from the Foundation and Charter Entities' audited financial statements for the fiscal year ended June 30, 2014. The audit reports are filed in the District's administrative offices.

## C. Basis of Presentation: Government-wide Financial Statements

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

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

## D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds and blended component units. 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

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

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).
- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the certificates of participation.
- Debt Service – ARRA Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs of Qualified School Construction Bonds (QSCBs).
- Capital Projects – Other Capital Projects Fund – to account for the financial resources received from local impact fees, certificates of participation proceeds, and other miscellaneous sources to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – ARRA Economic Stimulus Fund – to account for the financial resources of the QSCBs to be used for certain capital construction.

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

- Internal Service Funds – to account for the District's self-insured health and hospitalization programs, which include medical, dental, and vision plans, and the District's self-insured workers' compensation program (for claims incurred prior to June 30, 2008).
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# NOTES TO FINANCIAL STATEMENTS
# JUNE 30, 2014

## 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 fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt 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 fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

The Foundation 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.

The Charter Entities are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

### 1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, money market funds, and short-term, highly liquid investments with original maturities of three months or less.

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

Investments classified as cash equivalents include amounts placed with the Florida Education Investment Trust Fund (FEITF) and in money market mutual funds.

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 State Board of Administration (SBA) debt service accounts for investment of debt service moneys, amounts placed in FEITF, and those made locally.

The District's investments in the FEITF, a Securities and Exchange Commission (SEC) 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.

Investments made locally consist of amounts placed in a money market mutual fund under a trust agreement in connection with certificates of participation financing arrangements, including QSCBs, and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

**3. Restricted Cash and Cash Equivalents**

Certain assets held by a trustee under a trust agreement, in the name of the District, in connection with certificates of participation financing arrangements are classified as restricted assets on the statement of net position because they are set aside for repayment of maturing debt as required by the applicable debt covenants or represent proceeds from the sale of certificates of participation. These assets consist of $15,261,115 restricted for issuance costs and for the repayment of certificates of participation principal and interest payable on July 1, 2014, and reported as current liabilities on the statement of net position, $2,823,559 restricted for the repayment of QSCBs principal that is maintained in a sinking fund account, $16,176,783 of certificates of participation proceeds restricted for the construction of Patriot Oaks and Valley Ridge Academies, and $178,406 restricted for repayment of SBE State School Bonds, Series 2005A, principal and interest.

**4. Inventories and Prepaid Items**

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

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

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.

**5. 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 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:

| Description | Estimated Lives |
|---|---|
| Improvements Other Than Buildings | 10 - 40 years |
| Buildings and Fixed Equipment | 10 - 50 years |
| Furniture, Fixtures, and Equipment | 3 - 15 years |
| Motor Vehicles | 5 - 10 years |
| Audio Visual Materials and Computer Software | 5 years |

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

**6. Long-Term Liabilities**

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued and premiums on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**7. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of

ST. JOHNS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

resources (revenue) until that time. The District has one item, which arises only under the accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue,* is reported only in the government-wide statement of net position. At June 30, 2014, the government-wide financial statements report unavailable revenues for a land contribution receivable as further discussed in note IV.D. This amount is deferred and will be recognized as an inflow of resources in the period that the amounts become available.

**8. Net Position Flow Assumption**

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide 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.

**9. Fund Balance Flow Assumptions**

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

**10. Fund Balance Policies**

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

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

**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. The District classifies its amounts reported as inventories as nonspendable.

**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. The District classifies most of its fund balances

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

as restricted, other than those in the General Fund. In the General Fund, unspent State Required Carryover (Categorical) Programs and earmarked educational funding that is legally or otherwise restricted are reported as restricted fund balance.

**Committed Fund Balance**. The committed fund balance classification may include amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported the following as committed fund balance in its General Fund:

- **Economic Stabilization Arrangement**. The District has established an economic stabilization arrangement in Board Rule 7.01, *School District Budget System*, which provides that the Board shall commit an amount equal to 3 percent of its estimated revenue from the first Florida Education Finance Program calculation under a stabilization arrangement for the use in an emergency. The District classified the stabilization arrangement moneys as committed fund balance and defines the circumstances that constitute an emergency are non-routine in nature and specifically include the following:

  - Failure to pay loans or debt service when due as a result of lack of funds;
  - Failure to pay uncontested claims to creditors within 90 days due to lack of funds;
  - Failure to transfer taxes, social security or retirement/benefits for employees; and
  - Failure for one pay period to pay wages, salaries, or retirement benefits to employees.

  At June 30, 2014, the stabilization balance was $6,915,029.

- **Discretionary Millage**. In accordance with Section 1011.71(1), Florida Statutes, the District levied an additional 0.25 discretionary millage for critical operating needs. The School Board adopted the additional discretionary millage on September 28, 2010, and specified that the moneys be used to support the maintenance and equipment needs of its educational facilities. The unspent portion of the additional discretionary millage moneys, totaling $3,168,947 at June 30, 2014, is classified as committed fund balance.

**Assigned Fund Balance**. 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. Board Rule 7.01 authorizes the Superintendent or Superintendent's designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**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.

ST. JOHNS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

## 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 fiscal year when the adjustments are made.

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

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

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

### 3. District Property Taxes

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

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

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

The Board adopted the 2013 tax levy on September 17, 2013. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. **Educational Impact Fees**

St. Johns County (County) imposes an educational impact fee based on an ordinance adopted by the County Commission in 1987. This ordinance was most recently amended in March 2011, when Ordinance 2011-7 established, in part, revised rates to be collected. The educational impact fee is collected by the County for most new residential construction. The fees can only be used to acquire, construct, expand, and equip the educational sites and educational capital facilities necessitated by new development and to pay for certain collection and legal defense costs.

5. **Federal Revenue Sources**

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

6. **Compensated Absences**

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities using the vesting method. Under this method, the liability amount is estimated based on the accumulated leave at fiscal year-end for employees who are currently eligible, or expected to become eligible, to receive 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.

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

**7. 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 and workers' compensation insurance. 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

Change in Reporting Entity. As the District is required to operate, control, supervise, and fund public schools in the District, including the five charter schools and a charter technical career center (Charter Entities), the Charter Entities are presented as discretely presented component units of the District. In prior fiscal years, the six Charter Entities were excluded from the District's reporting entity. As a result of this change, beginning net position of the component units was restated (increased) by $4,525,522, affecting the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

GASB Statement No. 65. The District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective for the 2013-14 fiscal year. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources and deferred inflows of resources, certain items previously reported as assets and liabilities, respectively. Accordingly, as further discussed in note IV.D, unavailable revenue for a land contribution is classified as a deferred inflow of resources for the 2013-14 fiscal year.

## III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Deficit Net Position in Proprietary Funds – Internal Service Fund

The following internal service fund has a deficit net position balance at June 30, 2014:

| | Beginning Net Position | Change in Net Position | Ending Net Position |
|---|---|---|---|
| Health and Hospitalization - Group Medical Self-Insurance Fund | $ (7,765,037) | $ 469,350 | $ (7,295,687) |

The Health and Hospitalization – Group Medical Self-Insurance Fund continues to have a deficit net position. To improve the Fund's net position, effective July 1, 2014, the District increased the combined employer contribution and employee premium by a total of 12 percent, and increased the retiree premium by 18 percent. The District also made changes to deductibles and out-of-pocket maximums effective

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**DISTRICT SCHOOL BOARD**
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January 1, 2015. The District is monitoring the deficit and will research additional plan changes for the Board to consider for implementation.

## IV. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

### A. Cash Deposits with Financial Institutions

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

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

### B. Investments

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

| Investments | Maturities | Fair Value |
|---|---|---|
| Goldman Sachs Financial Square Treasury Obligations Fund (1) | 28 Day Average | $ 34,261,457 |
| FEITF (2) | 51 Day Average | 5,027,264 |
| SBA Debt Service Accounts | 6 Months | 153,713 |
| Total Investments | | $ 39,442,434 |

Notes: (1) This investment is held under a trust agreement in connection with the Certificates of Participation, Series 2006, 2010-QSCB, 2012, and 2013 financing agreements, and is reported as restricted cash equivalents for financial reporting purposes (See note IV.K.1).

(2) The investment is reported as a cash equivalent for financial statement reporting purposes.

- Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy authorizes the investment of temporarily idle funds to earn the maximum return for the period available. The policy also indicates a high priority shall be placed on the safety and liquidity of the funds. The trust agreement in connection with certificates of participation financing arrangements does not specifically limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates. The Goldman Sachs Financial Square Treasury Obligations Fund money market mutual fund and the FEITF are designed to maintain a $1 per share net asset value and provide immediate liquidity to meet cash flow needs.

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct

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obligations of the United States Treasury. The District's investment policy does not further limit its investment choices.

The District's investment in the FEITF was rated AAAm by Standard and Poor's and the investments in Goldman Sachs Financial Square Treasury Obligations Fund were rated AAAm by Standard and Poor's and Aaa by Moody's Investors Service.

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

**C. Due From Other Agencies**

The $7,223,287 reported as due from other agencies primarily consists of $3,545,264 due from the Florida Department of Education for remodeling, renovation, maintenance, repair, and site improvement projects of District facilities; $1,976,307 due from the Florida Department of Education for reimbursement of Federal grant expenditures; and $1,339,181 due from the St. Johns County Board of County Commissioners for the collection of educational impact fees.

**D. Land Contribution Receivable**

The $14,127,353 reported as land contribution receivable represents the value of certain properties required to be donated to the District, in exchange for future impact fee credits, pursuant to an amended development order for the Twin Creeks Development of Regional Impact (DRI). The amended development order was approved by the St. Johns County Board of County Commissioner on June 3, 2014, and required, in part, that the developer provide three land parcels totaling 127 acres within 180 days in exchange for three other parcels previously provided to the District. As of June 30, 2014, the District had returned the three parcels previously provided by the developer, but the 127 acres specified in the revised development order had not been conveyed to the District. On February 27, 2014, one of the DRI landowners filed a complaint against the other landowner seeking compensation for loss of value resulting from the proposed amended development order and, on July 23, 2014, the same landowner petitioned to appeal the amended development order to the Florida Land and Water Adjudicatory Commission. As of February 23, 2015, the two landowners and the County were participating in mediation proceedings pursuant to Section 70.51, Florida Statutes, *Land Use and Environmental Dispute Resolution*. Accordingly, a deferred inflow of resources – unavailable land contribution has been reported in the government-wide statement of net position until the properties are conveyed to the District.

# ST. JOHNS COUNTY DISTRICT SCHOOL BOARD NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2014

## E. 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 | $ 34,488,948 | $ | $ 2,225,306 | $ 32,263,642 |
| Construction in Progress | 7,150,256 | 35,520,206 | | 42,670,461 |
| Total Capital Assets Not Being Depreciated | 41,639,204 | 35,520,206 | 2,225,306 | 74,934,103 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 24,795,305 | | | 24,795,305 |
| Buildings and Fixed Equipment | 597,446,683 | 1,420,015 | | 598,866,697 |
| Furniture, Fixtures, and Equipment | 25,055,142 | 1,997,985 | 2,954,562 | 24,098,566 |
| Motor Vehicles | 18,149,142 | 2,031,115 | 54,933 | 20,125,324 |
| Property Under Capital Lease (1) | 667,231 | | 667,231 | |
| Audio Visual Materials and Computer Software | 4,367,499 | 111,163 | 77,206 | 4,401,456 |
| Total Capital Assets Being Depreciated | 670,481,002 | 5,560,278 | 3,753,931 | 672,287,349 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 14,422,612 | 642,027 | | 15,064,639 |
| Buildings and Fixed Equipment | 152,604,252 | 14,137,429 | | 166,741,681 |
| Furniture, Fixtures, and Equipment | 20,986,145 | 1,931,588 | 2,954,562 | 19,963,171 |
| Motor Vehicles | 11,587,876 | 1,478,779 | 54,933 | 13,011,722 |
| Property Under Capital Lease (1) | 661,671 | 5,560 | 667,231 | |
| Audio Visual Materials and Computer Software | 4,099,648 | 181,721 | 77,206 | 4,204,164 |
| Total Accumulated Depreciation | 204,362,203 | 18,377,105 | 3,753,931 | 218,985,377 |
| Total Capital Assets Being Depreciated, Net | 466,118,799 | (12,816,827) | | 453,301,972 |
| Governmental Activities Capital Assets, Net | $ 507,758,002 | $ 22,703,378 | $ 2,225,306 | $ 528,236,075 |

Note (1): During the 2013-14 fiscal year, property under capital lease was paid off and the asset and related accumulated depreciation was reclassified as buildings and fixed equipment. As a result, capital asset additions exceed fixed capital outlay expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds by $926,616 ($667,231 for reclassifying the property under capital lease and $259,385 for donated capital assets), and additions to accumulated depreciation exceed depreciation expense on the Statement of Activities by $667,231.

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Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|---|
| GOVERNMENTAL ACTIVITIES | |
| Instruction | $ 10,285,953 |
| Student Personnel Services | 1,226,674 |
| Instructional Media Services | 322,441 |
| Instruction and Curriculum Development Services | 394,470 |
| Instructional Staff Training Services | 322,210 |
| Instruction Related Technology | 265,281 |
| School Board | 26,156 |
| General Administration | 24,461 |
| School Administration | 1,069,623 |
| Facilities Acquisition and Construction | 95,405 |
| Fiscal Services | 117,844 |
| Food Services | 410,265 |
| Central Services | 254,221 |
| Student Transportation Services | 1,478,779 |
| Operation of Plant | 751,814 |
| Maintenance of Plant | 424,393 |
| Administrative Technology Services | 23,624 |
| Community Services | 216,260 |
| Total Depreciation Expense - Governmental Activities | $ 17,709,874 |

## F. 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).

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

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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 2013-14 fiscal year were as follows:

| Class | Percent of Gross Salary | |
|---|---|---|
| | Employee | Employer (A) |
| FRS, Regular | 3.00 | 6.95 |
| FRS, Elected County Officers | 3.00 | 33.03 |
| FRS, Senior Management Service | 3.00 | 18.31 |
| DROP - Applicable to Members from All of the Above Classes | 0.00 | 12.84 |
| Employees terminated from DROP and FRS | 0.00 | 1.20 |
| FRS, Reemployed Retiree | (B) | (B) |

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled $9,527,316, $10,200,130, and $14,102,665, respectively, which were equal to the required contributions for each fiscal year.

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There were 652 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled $2,599,980, which was equal to the required contribution for the 2013-14 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department's Web site (www.myfloridacfo.com). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division's Web site (www.frs.myflorida.com).

## G. 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 and the First Coast Technical College charter technical career center, and eligible dependents, are eligible to participate in the District's self-insured health and hospitalization plan for medical, prescription drug, dental, and vision coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. Benefits under this plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the District. 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 2013-14 fiscal year, 385 retirees received other postemployment benefits. The District provided required contributions of $1,872,824 toward the annual OPEB cost, net of retiree contributions totaling $2,273,346, which represents 1.7 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

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basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

| Description | Amount |
|---|---|
| Normal Cost (service cost for one year) | $ 2,842,863 |
| Amortization of Unfunded Actuarial Accrued Liability | 2,473,809 |
| Annual Required Contribution | 5,316,672 |
| Interest on Net OPEB Obligation | 1,539,336 |
| Adjustment to Annual Required Contribution | (2,332,327) |
| Annual OPEB Cost (Expense) | 4,523,681 |
| Contribution Toward the OPEB Cost | (1,872,824) |
| Increase in Net OPEB Obligation | 2,650,857 |
| Net OPEB Obligation, Beginning of Year | 51,311,200 |
| Net OPEB Obligation, End of Year | $ 53,962,057 |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2014, and the two preceding fiscal years, were as follows:

| Fiscal Year | Annual OPEB Cost | Amount Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 2011-12 | $ 8,465,466 | $ 2,583,993 | 30.5% | $ 44,131,832 |
| 2012-13 | 8,836,418 | 1,657,050 | 18.8% | 51,311,200 |
| 2013-14 | 4,523,681 | 1,872,824 | 41.4% | 53,962,057 |

**Funded Status and Funding Progress**. As of January 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was $53,625,376, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $53,625,376, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $131,804,532, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.7 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, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and the District's 2013-14 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, projected salary increase of 4 to 8.23 percent, and an annual healthcare cost trend rate of 8.5 percent beginning January 1, 2014, reduced by 0.5 percent per year, to an ultimate rate of 4.5 percent beginning January 1, 2021, and increasing to a rate of 4.84 percent beginning January 1, 2039, for the Federal excise tax on high-cost employer health plans. The investment rate of return and projected salary increase 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. The remaining amortization period at June 30, 2014, was 22 years.

### H. Special Termination Benefits

The Board provides for the payment of special retirement benefits to qualifying employees as follows:

- The Board provides for the payment of a special termination incentive to administrative, managerial, and confidential employees hired prior to January 2, 2002. The incentive is equal to 1 percent of final salary times the number of years of St. Johns County District School Board service or $10,000, whichever is greater, provided that the employee retires by the end of the first fiscal year of eligibility. Employees hired on or after January 2, 2002, are not eligible for the retirement incentive, and employees hired before that date and reclassified from another category are eligible for an incentive equal to 1 percent of final salary times the number of years of St. Johns County District School Board service or $10,000, whichever is less, provided that the employee retires by the end of the first fiscal year of eligibility.
- The Board's collective bargaining agreement with St. Johns Education Association provides for the payment of a special retirement incentive of 30 percent of final salary or $10,000, whichever is greater, for instructional employees who retire with a minimum of 10 years of service, provided that the employee retires by the end of the first fiscal year of eligibility.
- The Board's collective bargaining agreement with the St. Johns School Support Association provides for the payment of special retirement benefits to noninstructional employees upon retirement of $3,000 for employees with 15 years of services and an additional $250 for each year of service beyond 15 years, up to a maximum of 30 years of service.

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In addition to payments for accrued leave and regular termination benefits, the District reported expenditures for special termination benefits, totaling $912,898 during the 2013-14 fiscal year.

## I. Construction and Other Significant Commitments

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

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

| Major Funds | | | |
|---|---|---|---|
| General | Capital Projects - Other Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
| $ 1,297,392 | $ 4,991,481 | $ 2,773,157 | $ 9,062,030 |

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

| Project | Contract Amount | Completed to Date | Balance Committed |
|---|---|---|---|
| Patriot Oaks Academy: | | | |
| Architect | $ 1,314,265 | $ 1,262,278 | $ 51,987 |
| Contractor | 13,827,159 | 13,135,375 | 691,784 |
| Direct Purchases | 7,608,850 | 7,303,032 | 305,817 |
| Valley Ridge Academy: | | | |
| Architect | 713,310 | 683,085 | 30,225 |
| Contractor | 13,399,188 | 12,444,420 | 954,768 |
| Direct Purchases | 7,457,135 | 7,302,918 | 154,217 |
| Total | $ 44,319,906 | $ 42,131,108 | $ 2,188,798 |

## J. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established self-insurance programs for its employee health and hospitalization and its workers' compensation liability coverage. For workers' compensation and most of its other insurance coverage, effective July 1, 2008, the District participates in a group self-insurance program administered by the Florida School Boards Association, Inc. The District's covered risks relating to property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members are included in the group program.

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Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The program is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the program is composed of one board member from each participating district and a superintendent and district-level business officer selected from one of the participating districts.

The District's health and hospitalization self-insurance program, which includes medical, dental, and vision coverage, is being provided on a self-insured basis up to specified limits. The District has entered into an agreement with an insurance company to provide specific excess coverage of claims amounts above $300,000 per insured per year. The program's administrator has been approved by the Florida Department of Financial Services, Office of Insurance Regulation. The funds for these coverages were established in accordance Chapter 112, Florida Statutes. The program is administered through the Internal Service Funds. Contributions to the program were made by the District and the First Coast Technical College, and covered by current and former employees and retirees of the Board and the First Coast Technical College.

A liability in the amount of $2,798,588 was actuarially determined for estimated insurance claims payable for claims incurred, but not reported for health and hospitalization coverage.

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

| Fiscal Year | Beginning-of-Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2012-13 | $ 3,598,557 | $ 29,553,519 | $ (30,244,813) | $ 2,907,263 |
| 2013-14 | 2,907,263 | 34,093,323 | (34,201,998) | 2,798,588 |

The Board established a self-insurance program to provide workers' compensation coverage for its employees for claims incurred prior to June 30, 2008. The District's liability was limited by excess insurance to $150,000 or $250,000 per occurrence, depending on the year of occurrence, and by aggregate excess insurance per plan year, ranging from $1,000,000 to $3,211,800, except for the 2004-05 plan year, for which aggregate excess insurance was not purchased. For claims incurred on or after July 1, 2008, the District's workers' compensation coverage was administered by the Florida School Boards Association program.

A liability in the amount of $735,528 was actuarially determined to for estimated insurance claims payable for claims incurred, but not reported for workers' compensation coverage.

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The following schedule represents the changes in the liability for the past two fiscal years for the District's workers' compensation program:

| Fiscal Year | Beginning-of-Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2012-13 | $ 619,413 | $ 25,787 | $ (62,175) | $ 583,025 |
| 2013-14 | 583,025 | 282,593 | (130,090) | 735,528 |

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

## K. Long-Term Liabilities

### 1. Certificates of Participation

Certificates of participation at June 30, 2014, are as follows:

| Series | Amount Outstanding | Interest Rates (Percent) | Lease Term Maturity | Original Amount |
|---|---|---|---|---|
| Series 2006 | $ 79,350,000 | 4.10 - 5.25 | 2021 | $ 145,000,000 |
| Series 2010-QSCB | 16,000,000 | 4.94 (1) | 2027 | 16,000,000 |
| Series 2012, Refunding | 7,600,000 | 1.08 | 2018 | 9,510,000 |
| Series 2013 | 32,310,000 | 2.00 - 5.00 | 2033 | 33,480,000 |
| Total Certificates of Participation | $ 135,260,000 | | | $ 203,990,000 |

Note: (1) The Series 2010-QCSBs (Qualified School Construction Bonds) are primarily principal only bonds, repaid by the District. The QSCBs were issued as direct subsidy bonds, whereby the District pays the full amount of taxable interest to the lender and then files for a direct cash subsidy payment from the United States Treasury. Beginning with the 2013-14 fiscal year, the direct subsidy interest payments from the United States Treasury were reduced by 8.7 percent, from 4.94 percent to 4.51 percent.

The District entered into a master financing arrangement on November 15, 2003, characterized as a lease-purchase agreement, with the St. Johns County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of certificates of participation to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District gave a ground lease on District properties to the Leasing Corporation, with a rental fee of $10 per year. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the properties included under the Ground Lease

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Agreements for the benefit of the securers of the certificates for the remaining term of the ground leases or until the certificates are paid in full.

The QSCBs were issued through the ARRA on September 20, 2010. For the Series 2010-QSCB, the principal portion of the basic lease payment, $16,000,000, is due on September 1, 2027. The sinking fund payments are due annually on September 1, commencing on September 1, 2011. The Series 2010-QSCB sinking fund payments made by the District will be deposited by the Trustee into the Series 2010 Sinking Fund Account pursuant to the Trust Agreement. Such funds will be invested in permitted investments in accordance with the Trust Agreement. The Board may offset sinking fund payments with the interest earnings on amounts in the Sinking Fund Account and must make supplemental payments to the Sinking Fund Account to cure any deficiency between the amount on deposit and the required scheduled amount. Sinking fund payments on deposit in the Sinking Fund Account will be retained therein until transferred to the Series 2010 Principal Account and applied to the payment of the $16,000,000 principal component due on the Series 2010-QSCB Certificates at maturity (September 1, 2027) or upon earlier payment. The QSCBs are primarily issued as principal only and provide for a direct cash subsidy payment from the United States Treasury for the interest. Beginning with the 2013-14 fiscal year, the direct subsidy interest payments from the United States Treasury was reduced by 8.7 percent, from 4.94 percent to 4.51 percent.

A summary of the lease terms are as follows:

| Certificates | Lease Term |
|---|---|
| Series 2006 | Earlier of the date paid in full or July 1, 2021 |
| Series 2010-QSCB | Earlier of the date paid in full or September 1, 2027 |
| Series 2012, Refunding | Earlier of the date paid in full or July 1, 2018 |
| Series 2013 | Earlier of the date paid in full or July 1, 2033 |

The District properties included in the ground lease under this arrangement include:

| Certificates | Description of Properties |
|---|---|
| Series 2006 | Construction of Wards Creek Elementary School, Pacetti Bay Middle School, a Ninth Grade Center at the Existing Bartram Trail High School, Ponte Vedra High School, and Creekside High School |
| Series 2010-QSCB | Construction of Palencia Elementary and Valley Ridge Academy |
| Series 2012, Refunding | Construction of Timberlin Creek Elementary School and South Woods Elementary School |
| Series 2013 | Construction of Patriot Oaks Academy and Valley Ridge Academy |

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Except for the QSCBs, the lease payments are payable by the District semiannually, on July 1 and January 1, and must be remitted as of the 15th day of the month preceding the payment dates. The QSCB lease payments are payable March 1 and September 1. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---|---|---|---|
| 2015 | $ 18,727,485 | $ 12,955,000 | $ 5,772,485 |
| 2016 | 18,731,642 | 13,410,000 | 5,321,642 |
| 2017 | 18,730,180 | 13,950,000 | 4,780,180 |
| 2018 | 18,726,852 | 14,465,000 | 4,261,852 |
| 2019 | 16,774,058 | 13,125,000 | 3,649,058 |
| 2020-2024 | 43,174,888 | 33,060,000 | 10,114,888 |
| 2025-2029 | 30,840,338 | 25,405,000 | 5,435,338 |
| 2030-2033 | 9,664,438 | 8,890,000 | 774,438 |
| Total Minimum Lease Payments | $ 175,369,878 | $ 135,260,000 | $ 40,109,878 |

2. **<u>Bonds Payable</u>**

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

| Bond Type | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|---|---|---|---|
| State School Bonds: | | | |
| Series 2005A | $ 180,000 | 4.0 - 5.0 | 2025 |
| Series 2005B, Refunding | 2,075,000 | 5.0 | 2020 |
| Series 2006A | 365,000 | 4.100 - 4.625 | 2026 |
| Series 2008A | 1,210,000 | 4.25 - 5.00 | 2028 |
| Series 2009A, Refunding | 505,000 | 5.0 | 2019 |
| Series 2009A | 565,000 | 4.0 - 5.0 | 2029 |
| Series 2010A | 680,000 | 3.5 - 5.0 | 2030 |
| Series 2011A, Refunding | 300,000 | 3.0 - 5.0 | 2023 |
| Series 2014A, Refunding | 581,000 | 2.0 - 5.0 | 2025 |
| Total Bonds Payable | $ 6,461,000 | | |

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# NOTES TO FINANCIAL STATEMENTS (CONTINUED)
# JUNE 30, 2014

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

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

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---|---|---|---|
| State School Bonds: | | | |
| 2015 | $ 982,004 | $ 685,000 | $ 297,004 |
| 2016 | 1,010,093 | 739,000 | 271,093 |
| 2017 | 1,016,198 | 781,000 | 235,198 |
| 2018 | 994,758 | 798,000 | 196,758 |
| 2019 | 635,195 | 478,000 | 157,195 |
| 2020-2024 | 2,203,019 | 1,696,000 | 507,019 |
| 2025-2029 | 1,369,920 | 1,209,000 | 160,920 |
| 2030 | 78,000 | 75,000 | 3,000 |
| Total State School Bonds | $ 8,289,185 | $ 6,461,000 | $ 1,828,185 |

## 3. Defeased Debt

**Refunding State School Bonds**. On May 22, 2014, the Florida Department of Education issued SBE, Capital Outlay Refunding Bonds, Series 2014A. The District's portion of the refunding SBE Capital Outlay Bonds, Series 2014A, was $581,000.

The refunding bonds were issued, in part, to advance refund the District's State School Bonds, Series 2004A. The $485,000 principal amount of the District's State School Bonds, Series 2004A, was considered defeased in substance and the liability was removed from the government-wide financial statements as of June 30, 2014.

The refunding bonds also established a trust account for the defeasance of the SBE Capital Outlay Bonds, Series 2005A, maturing January 1, 2015, and later. As the trust account established pursuant to the refunding was not considered to be risk-free in accordance with GASB Statement No. 7, the District's $170,000 portion of the Series 2005A bonds was considered an economic defeasance and not a legal defeasance. Therefore, the SBE Capital Outlay Bonds, Series 2005A, were not removed from the government-wide financial statements and the assets held in the trust account are reported as restricted cash and cash equivalents at June 30, 2014.

# ST. JOHNS COUNTY DISTRICT SCHOOL BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

## 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 | | | | | |
| Estimated Insurance Claims Payable | $ 583,025 | $ 282,593 | $ 130,090 | $ 735,528 | $ 130,090 |
| Obligations Under Capital Lease | 66,952 | | 66,952 | | |
| Bonds Payable | 7,035,000 | 581,000 | 1,155,000 | 6,461,000 | 685,000 |
| Certificates of Participation Payable | 147,790,000 | | 12,530,000 | 135,260,000 | 12,955,000 |
| Compensated Absences Payable | 23,668,109 | 3,035,673 | 1,798,832 | 24,904,950 | 1,798,832 |
| Other Postemployment Benefits Payable | 51,311,200 | 4,523,681 | 1,872,824 | 53,962,057 | |
| Total Governmental Activities | $ 230,454,286 | $ 8,422,948 | $ 17,553,698 | $ 221,323,535 | $ 15,568,922 |

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 proprietary fund.

## L. Net Position – Net Investment in Capital Assets

In the government-wide Statement of Net Position, the difference between total assets and total liabilities is net position. Generally accepted accounting principles require that net position be subdivided into the following three categories: net investment in capital assets; restricted net position; and unrestricted net position.

The composition of net investment in capital assets as of June 30, 2014, is shown in the table below:

| Description | | Amount |
|---|---|---|
| Total Capital Assets, Net of Accumulated Depreciation | | $ 528,236,075 |
| Less Related Debt, Net of Unspent Proceeds: | | |
| Bonds Payable | $ 6,461,000 | |
| Certificates of Participation Payable | 135,260,000 | |
| Unspent Debt Proceeds | (13,881,840) | |
| Total Related Debt, Net of Unspent Proceeds | | (127,839,160) |
| Total Net Investment in Capital Assets | | $ 400,396,915 |

# ST. JOHNS COUNTY DISTRICT SCHOOL BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

## M. Fund Balance Reporting

The following is a schedule of fund balances by category at June 30, 2014:

| | Major Funds | | | | | |
|---|---|---|---|---|---|---|
| | General | Debt Service - Other Debt Service | Debt Service - ARRA Economic Stimulus | Capital Projects - Other Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
| **Fund Balances:** | | | | | | |
| **Nonspendable:** | | | | | | |
| Inventories | $ 456,023 | $ | $ | $ | $ 247,117 | $ 703,140 |
| **Restricted for:** | | | | | | |
| State Required Carryover Programs | 403,825 | | | | | 403,825 |
| Full Service Schools | 92,160 | | | | | 92,160 |
| District Bandwidth Support | 8,981 | | | | | 8,981 |
| Food Service | | | | | 1,011,506 | 1,011,506 |
| Debt Service | | 26,917 | 2,823,559 | | 327,135 | 3,177,611 |
| Capital Projects | | | | 52,999,559 | 19,199,718 | 72,199,277 |
| Total Restricted Fund Balance | 504,966 | 26,917 | 2,823,559 | 52,999,559 | 20,538,359 | 76,893,360 |
| **Committed for:** | | | | | | |
| Economic Stabilization | 6,915,029 | | | | | 6,915,029 |
| 0.25 Discretionary Millage | 3,168,947 | | | | | 3,168,947 |
| Total Committed Fund Balance | 10,083,976 | | | | | 10,083,976 |
| **Assigned for:** | | | | | | |
| 2014-15 Budget Shortfalls | 23,550,960 | | | | | 23,550,960 |
| Self-Insurance - Medical | 13,352,823 | | | | | 13,352,823 |
| Local Programs and Services | 3,858,642 | | | | | 3,858,642 |
| Extended Day Programs | 3,037,721 | | | | | 3,037,721 |
| School and Department Purchase Obligations | 1,014,274 | | | | | 1,014,274 |
| School Concurrency | 51,860 | | | | | 51,860 |
| Total Assigned Fund Balance | 44,866,279 | | | | | 44,866,279 |
| **Unassigned Fund Balance** | 3,719,159 | | | | | 3,719,159 |
| **Total Fund Balances** | $ 59,630,403 | $ 26,917 | $ 2,823,559 | $ 52,999,559 | $ 20,785,476 | $ 136,265,914 |

The fund balance categories are discussed in the **Fund Balance Policies** note disclosure.

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# NOTES TO FINANCIAL STATEMENTS
# JUNE 30, 2014

## N. Interfund Receivables and Payables

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

| Funds | Interfund Receivables | Interfund Payables |
|---|---|---|
| Major: | | |
| General | $ 5,341,252 | $ 84 |
| Special Revenue: | | |
| Federal Economic Stimulus | | 137,603 |
| Capital Projects: | | |
| Other Capital Projects | | 523,576 |
| Nonmajor Governmental | | 2,395,700 |
| Internal Service | | 2,116,969 |
| Agency | 84 | 167,404 |
| Total | $ 5,341,336 | $ 5,341,336 |

Interfund balances generally arise due to the District's General Fund paying for goods or services on behalf of other District funds. The interfund amounts represent temporary loans from one fund to another and are expected to be repaid within one year.

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# NOTES TO FINANCIAL STATEMENTS
# JUNE 30, 2014

## O. Revenues and Expenditures/Expenses

### 1. Schedule of State Revenue Sources

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

| Source | Amount |
|---|---|
| Florida Education Finance Program (FEFP): | |
| Transportation | $ 8,018,856 |
| Supplemental Academic Instruction | 6,370,592 |
| Instructional Materials | 2,656,408 |
| Comprehensive Reading Plan | 1,589,043 |
| Safe Schools | 585,801 |
| Florida Teachers Lead | 556,811 |
| Other FEFP | 51,920,380 |
| Categorical Educational Program - Class Size Reduction | 35,491,525 |
| Gross Receipts Tax (Public Education Capital Outlay) | 6,000,000 |
| Workforce Development Program | 4,558,016 |
| School Recognition | 2,112,778 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 1,263,704 |
| Voluntary Prekindergarten | 672,913 |
| Discretionary Lottery Funds | 328,168 |
| Adults with Disabilities | 86,000 |
| Mobile Home License Tax | 67,463 |
| Food Service Supplement | 66,376 |
| Miscellaneous | 845,660 |
| Total | $ 123,190,493 |

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

ST. JOHNS COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

2. **Property Taxes**

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

| | Millages | Taxes Levied | Taxes Budgeted (1)(2) | Taxes Collected (2) |
|---|---|---|---|---|
| GENERAL FUND | | | | |
| Nonvoted School Tax: | | | | |
| Required Local Effort | 5.296 | $ 100,106,499 | $ 96,095,769 | $ 96,520,130 |
| Basic Discretionary Local Effort | 0.748 | 14,138,909 | 13,572,439 | 13,632,375 |
| CAPITAL PROJECTS FUNDS | | | | |
| Nonvoted Tax: | | | | |
| Local Capital Improvements | 1.500 | 28,353,427 | 27,217,457 | 27,337,650 |
| Total | 7.544 | $142,598,834 | $ 136,885,665 | $137,490,155 |

Notes: (1) The District initially budgets about 96 percent of the taxes levied to allow for taxes that will not be collected as a result of early payment discounts, changes in property value assessments, and various other factors. The final budget amounts represent the Board-approved budgets, as amended.

(2) The budgeted and collected columns do not include delinquent tax receipts reported as revenue in the 2013-14 fiscal year to satisfy prior years' unpaid taxes.

P. **Interfund Transfers**

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

| Funds | Interfund Transfers In | Interfund Transfers Out |
|---|---|---|
| Major: | | |
| General | $ 5,771,542 | $ 2,940,050 |
| Debt Service: | | |
| Other Debt Service | 17,946,883 | |
| ARRA Economic Stimulus | 1,007,280 | |
| Capital Projects: | | |
| Other Capital Projects | 590 | 3,770,820 |
| Nonmajor Governmental | | 20,955,475 |
| Internal Service | 2,940,050 | |
| Total | $ 27,666,345 | $ 27,666,345 |

Interfund transfers represent permanent transfers of moneys between funds. The transfer out of the General Fund was to fund the expenditures of the District's Health and Hospitalization – Group Medical Self-Insurance Fund. The transfer out of the Capital Projects – Other Capital Projects Fund was to provide for debt service payments and to transfer revenue to the General Fund for subsequent disbursement to charter schools. The transfers out of the nonmajor governmental funds were to reimburse the General Fund for expenditures related to school food service operations, property insurance premiums, and to fund certain expenditures of the District's maintenance department, to provide debt service payments to the

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

Debt Service Funds, and to transfer remaining District General Obligation Bonds debt service funds to the Capital Projects – Other Capital Projects Fund.

## V. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2013-14 fiscal year:

| | Group Medical Insurance | Group Dental Insurance | Group Vision Insurance | Workers' Compensation Liability Insurance | Total |
|---|---|---|---|---|---|
| Total Assets | $ 694,013 | $ 2,448,050 | $ 885,760 | $ 5,166,905 | $ 9,194,728 |
| Liabilities and Net Position: | | | | | |
| Accounts Payable | $ 3,326,979 | $ 49,660 | $ 29,255 | $ 8,864 | $ 3,414,758 |
| Due to Other Funds | 2,116,969 | | | | 2,116,969 |
| Estimated Insurance Claims Payable | 2,545,752 | 215,676 | 37,160 | 735,528 | 3,534,116 |
| Net Position: | | | | | |
| Net Investment in Capital Assets | 314,610 | | | | 314,610 |
| Unrestricted Net Position (Deficit) | (7,610,297) | 2,182,714 | 819,345 | 4,422,513 | (185,725) |
| Total Liabilities and Net Position | $ 694,013 | $ 2,448,050 | $ 885,760 | $ 5,166,905 | $ 9,194,728 |
| Revenues: | | | | | |
| Insurance Premiums | $ 34,633,210 | $ 2,384,864 | $ 651,303 | $ 1,507,982 | $ 39,177,359 |
| Transfers In | 2,940,050 | | | | 2,940,050 |
| Interest Revenue | 646 | 5,624 | 1,657 | 8,900 | 16,827 |
| Total Revenues | 37,573,906 | 2,390,488 | 652,960 | 1,516,882 | 42,134,236 |
| Total Expenses | (37,104,556) | (2,593,863) | (497,055) | (1,522,277) | (41,717,751) |
| Increase (Decrease) in Net Position | $ 469,350 | $ (203,375) | $ 155,905 | $ (5,395) | $ 416,485 |

## VI. SUBSEQUENT EVENTS

The District issued Refunding Certificates of Participation, Series 2015, dated January 7, 2015, in the amount of $54,845,000. The proceeds were for refunding the District's outstanding Certificates of Participation, Series 2006. The Refunding Certificates of Participation were issued with an average interest rate of 1.6 percent and replaced outstanding Certificates of Participation with an average interest rate of 4.5 percent. The refunding will result in a net present value savings to the District of $4,295,176.

# OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| **Revenues** | | | | |
| Intergovernmental: | | | | |
| Federal Direct | $ 200,000 | $ 241,660 | $ 241,660 | $ |
| Federal Through State and Local | 300,000 | | | |
| State | 107,758,499 | 115,767,380 | 115,731,291 | (36,089) |
| Local: | | | | |
| Property Taxes | 109,992,308 | 109,992,308 | 110,543,223 | 550,915 |
| Miscellaneous | 1,554,859 | 8,291,661 | 9,971,202 | 1,679,541 |
| Total Local Revenues | 111,547,167 | 118,283,969 | 120,514,425 | 2,230,456 |
| **Total Revenues** | 219,805,666 | 234,293,009 | 236,487,376 | 2,194,367 |
| **Expenditures** | | | | |
| Current - Education: | | | | |
| Instruction | 160,594,090 | 161,786,816 | 148,680,522 | 13,106,294 |
| Student Personnel Services | 14,175,346 | 14,690,092 | 14,453,353 | 236,739 |
| Instructional Media Services | 4,440,513 | 4,468,307 | 4,428,460 | 39,847 |
| Instruction and Curriculum Development Services | 4,461,540 | 3,627,841 | 3,472,261 | 155,580 |
| Instructional Staff Training Services | 409,307 | 3,333,732 | 3,250,587 | 83,145 |
| Instruction Related Technology | 5,758,138 | 5,617,569 | 5,444,025 | 173,544 |
| School Board | 710,080 | 953,168 | 948,786 | 4,382 |
| General Administration | 341,029 | 377,143 | 375,648 | 1,495 |
| School Administration | 13,340,333 | 14,627,745 | 14,283,564 | 344,181 |
| Facilities Acquisition and Construction | 6,086,273 | 6,174,820 | 3,143,470 | 3,031,350 |
| Fiscal Services | 1,768,858 | 1,799,959 | 1,789,279 | 10,680 |
| Central Services | 3,379,048 | 3,091,139 | 2,959,688 | 131,451 |
| Student Transportation Services | 11,714,894 | 11,852,774 | 11,666,743 | 186,031 |
| Operation of Plant | 21,083,830 | 21,766,733 | 20,066,235 | 1,700,498 |
| Maintenance of Plant | 8,214,569 | 8,566,145 | 7,798,237 | 767,908 |
| Administrative Technology Services | 692,906 | 761,344 | 636,452 | 124,892 |
| Community Services | 2,590,612 | 5,910,540 | 3,104,992 | 2,805,548 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | 8,476 | 355,180 | 19,792 | 335,388 |
| Other Capital Outlay | 571,860 | 760,067 | 626,521 | 133,546 |
| **Total Expenditures** | 260,341,702 | 270,521,114 | 247,148,615 | 23,372,499 |
| **Deficiency of Revenues Over Expenditures** | (40,536,036) | (36,228,105) | (10,661,239) | 25,566,866 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers In | 5,502,071 | 5,771,542 | 5,771,542 | |
| Insurance Loss Recoveries | | | 35,107 | 35,107 |
| Transfers Out | | (2,940,050) | (2,940,050) | |
| **Total Other Financing Sources** | 5,502,071 | 2,831,492 | 2,866,599 | 35,107 |
| **Net Change in Fund Balances** | (35,033,965) | (33,396,613) | (7,794,640) | 25,601,973 |
| Fund Balances, Beginning | 67,425,044 | 67,425,044 | 67,425,043 | (1) |
| **Fund Balances, Ending** | $ 32,391,079 | $ 34,028,431 | $ 59,630,403 | $ 25,601,972 |

| Special Revenue - Federal Economic Stimulus Fund | | | |
|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| $ 156,708 | $ 800,596 | $ 800,596 | $ |
| | | | |
| | | | |
| 156,708 | 800,596 | 800,596 | |
| 73,871 | 73,871 | 73,871 | |
| | 148,050 | 148,050 | |
| 56,338 | 457,680 | 457,680 | |
| 44 | 7,583 | 7,583 | |
| 26,455 | 113,412 | 113,412 | |
| | | | |
| 156,708 | 800,596 | 800,596 | |
| | | | |
| | | | |
| | | | |
| | | | |
| $ 0 | $ 0 | $ 0 | $ 0 |

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

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) - (1) (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|---|---|---|---|---|---|---|
| January 1, 2009 | $ 0 | $ 112,079,956 | $ 112,079,956 | 0.0% | $ 121,342,166 | 92.4% |
| January 1, 2012 | 0 | 93,305,724 | 93,305,724 | 0.0% | 124,302,642 | 75.1% |
| January 1, 2014 | 0 | 53,625,376 | 53,625,376 | 0.0% | 131,804,532 | 40.7% |

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

**ST. JOHNS COUNTY**
**DISTRICT SCHOOL BOARD**
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**
**JUNE 30, 2014**

## I. BUDGETARY BASIS OF ACCOUNTING

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

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

## II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2012, unfunded actuarial accrued liability of $93,305,724 was significantly higher than the January 1, 2014, liability of $53,625,376 as a result of changes in benefit and other key assumptions as discussed below:

- The average cost of coverage provided to employees, retirees, and their dependents decreased from $902 per subscriber per month (as expected for the 2011-12 plan year) to $858 per subscriber per month for the 2013-14 plan year. This change had a significant decreasing effect on the cost and liability.
- Subsidized retiree contributions are scheduled to increase at a rate faster than previously assumed. As of the January 1, 2014, valuation date, the retiree contribution rate for eligible retirees under the age of 65 increased from $300 per month for single coverage to $450 per month as of July 1, 2014. This had a substantial decreasing effect on the costs and liabilities
- The assumption that retirees becoming eligible for Medicare benefits will discontinue coverage under the District's core plan and migrate to the more affordable group Medicare health insurance option increased from 60 percent to 75 percent. This had a substantial decreasing effect on the costs and liabilities.

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) | Amount Provided to Subrecipients |
|---|---|---|---|---|
| **United States Department of Agriculture:** | | | | |
| Indirect: | | | | |
| Child Nutrition Cluster: | | | | |
| Florida Department of Agriculture and Consumer Services: | | | | |
| School Breakfast Program | 10.553 | 13002 | $ 691,534 | $ |
| National School Lunch Program | 10.555 (2) | 13001, 13003 | 3,429,616 | |
| Summer Food Service Program for Children | 10.559 | 13006, 13007 | 76,372 | |
| **Total United States Department of Agriculture** | | | 4,197,522 | |
| **United States Department of Education:** | | | | |
| Indirect: | | | | |
| Special Education Cluster: | | | | |
| Florida Department of Education: | | | | |
| Special Education - Grants to States | 84.027 | 262, 263 | 5,827,748 | |
| Special Education - Preschool Grants | 84.173 | 266, 267 | 179,112 | |
| **Total Special Education Cluster** | | | 6,006,860 | |
| School Improvement Grants Cluster: | | | | |
| Florida Department of Education: | | | | |
| School Improvement Grants | 84.377 | 126 | 2,324 | |
| ARRA - School Improvement Grants, Recovery Act | 84.388 | 126 | 61,413 | |
| **Total School Improvement Grants Cluster** | | | 63,737 | |
| Florida Department of Education: | | | | |
| Adult Education - Basic Grants to States | 84.002 | 191, 193 | 335,600 | 335,600 |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 223, 226 | 3,700,455 | |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 436,779 | 150,324 |
| Education for Homeless Children and Youth | 84.196 | 127 | 41,016 | |
| English Language Acquisition State Grants | 84.365 | 102 | 21,790 | |
| Improving Teacher Quality State Grants | 84.367 | 224 | 613,977 | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | RL111, RG311, RG411, RS611 | 739,183 | 151 |
| **Total United States Department of Education** | | | 11,959,397 | 486,075 |
| **United States Department of Health and Human Services:** | | | | |
| Direct: | | | | |
| Head Start | 93.600 (3) | N/A | 936,672 | |
| **Corporation for National and Community Service:** | | | | |
| Direct: | | | | |
| Retired and Senior Volunteer Program | 94.002 | N/A | 63,276 | |
| **United States Department of Defense:** | | | | |
| Direct: | | | | |
| Army Junior Reserve Officers Training Corps | None | N/A | 61,875 | |
| Air Force Junior Reserve Officers Training Corps | None | N/A | 73,815 | |
| Navy Junior Reserve Officers Training Corps | None | N/A | 131,814 | |
| **Total United States Department of Defense** | | | 267,504 | |
| **Total Expenditures of Federal Awards** | | | $ 17,424,371 | $ 486,075 |

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 $477,917 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include $13 for grant number/program year 04CH0594/16 and $936,659 for grant number/program year 04CH4653/01.

**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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the St. Johns County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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*.

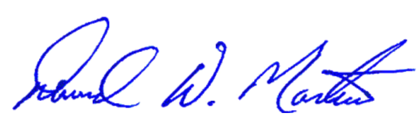
We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response 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 27, 2015

# AUDITOR GENERAL
## STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

**INDEPENDENT AUDITOR'S REPORT 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 St. Johns 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, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

The District's financial statements include the operations of the First Coast Technical Institute, Inc., d/b/a First Coast Technical College, a charter technical career center reported as a discretely presented component unit on the accompanying basic financial statements. First Coast Technical College received $2,724,015 in Federal awards for the fiscal year ended June 30, 2014. Our audit did not extend to the operations of First Coast Technical College because, pursuant to Section 1002.34(11)(f), Florida Statutes, the charter technical career center engaged other auditors to perform an audit in accordance with OMB Circular A-133.

***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, 2014.

**Report on Internal Control Over Compliance**

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of this Report**

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

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 27, 2015

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2014

## SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | 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? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |

Identification of major programs:

| CFDA Numbers: | Name of Federal Program or Cluster: |
|---|---|
| 84.027 and 84.173 | Special Education Cluster |
| 84.367 | Improving Teacher Quality State Grants |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $522,731 |
| Auditee qualified as low-risk auditee? | Yes |

# ST. JOHNS COUNTY
# DISTRICT SCHOOL BOARD
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
# FOR THE FISCAL YEAR ENDED JUNE 30, 2014

## ADDITIONAL MATTERS

### Finding No. 1: Bus Drivers

State Board of Education (SBE) Rule 6A-3.0141(6), Florida Administrative Code (FAC), requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to initial employment and the first day of the fall semester, and thereafter using automated weekly updates. In addition, SBE Rule 6A-3.0141(2), FAC, requires that the District ensure that each applicant has five years of licensed driving experience at initial employment, and SBE Rule 6A-3.0141(9)(c), FAC, requires that the District ensure that each operator successfully passes a dexterity test administered by the District and maintain a valid Medical Examiner's Certificate on an annual basis.

The District's *Transportation Handbook* includes a Safe Driver Plan that provides, in part, a point system for driving infractions that requires administrative actions against drivers, ranging from a documented warning to employment termination, based on the points accumulated. Also, SBE Rule 6A-3.0141(8), FAC, and Board policy provide that school bus drivers with expired, suspended, or revoked commercial vehicle driving licenses, or infractions making the driver unqualified for the position in accordance with the District's Safe Driver Plan, will not be allowed to drive a school bus.

While District records indicated that monitoring procedures over school bus drivers were generally adequate, our review of bus driver records disclosed the following:

- The District did not obtain and review the FDHSMV driver history records prior to the first day of the fall semester for 8 bus drivers, including 1 new hire for which the driver history record was also not obtained and reviewed prior to initial employment, contrary to SBE Rule 6A-3.0141(6), FAC. District personnel monitored the driver history by reviewing weekly updates for expired, suspended, or revoked licenses and activities that initiate the assessment of Safe Driver Plan points and, subsequent to our inquiries, District personnel obtained and reviewed the FDHSMV driver history for all drivers. Records confirmed that for the 8 drivers, none had expired, suspended, or revoked licenses or any other infraction for which Safe Driver Plan points would be assessed.
- One bus driver's license was suspended on May 15, 2014, for cancellation of personal injury protection insurance; however, the District allowed the individual to drive a school bus from the date of suspension through June 5, 2014. In response to our inquiry, District personnel indicated they were advised by the driver that the paperwork would be submitted to resolve the problem, but as a result of oversight, the District did not follow through to ensure the paperwork was submitted and the bus driver was allowed to drive with a suspended license, contrary to SBE Rule 6A-3.0141(8), FAC, and the Safe Driver Plan.
- Two bus drivers had their licenses suspended for failure to file a valid Medical Examiner's Certificate. District personnel indicated that the FDHSMV notified the bus drivers of the suspension, but the bus drivers did not self-report the suspension to the District, contrary to the Safe Driver Plan. In addition, as a result of oversights, District personnel did not timely identify the suspension in the automated weekly updates, resulting in one driver operating a school bus for five days and the other for one day with suspended licenses.

- District records did not evidence that annual dexterity tests were performed for 26 of the 30 drivers tested. In response to our inquiry, District personnel indicated the dexterity tests for these drivers were misplaced and the District re-performed dexterity testing for all affected employees, without exception.
- Four bus drivers lacked proof of five years of licensed driving experience, contrary to SBE Rule 6A-3.0141(2), FAC. In response to our inquiry, District personnel indicated these individuals previously lived in another state and that a review of the FDHSMV driver history record would not show when an individual obtained their original license if it was not obtained within the State of Florida. However, this would not relieve the District of its responsibility to obtain sufficient evidence of the licensed driving experience of its bus drivers.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel timely obtain and review bus driver history records and automated weekly updates, timely follow up on instances when a bus driver's license is suspended, maintain dexterity testing documentation, and ensure that drivers meet the licensed driving experience requirements to operate school buses.

**Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to operate school buses.**

### Finding No. 2: Group Health Self-Insurance Plan

The District established a group self-insurance plan for employees, retirees, and dependents pursuant to Section 112.08, Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit to the Florida Department of Financial Services, Office of Insurance Regulation (OIR), a report that includes a statement prepared by an actuary of the plan's actuarial soundness within 90 days after the close of the plan fiscal year.

Although the annual report to OIR for the plan year ended June 30, 2013, was due September 28, 2013, the District filed the report on June 16, 2014, or 261 days after the due date. For the plan years ended June 30, 2012 and 2013, the District had plan reserve shortages of $12.9 million and $12.3 million, respectively, to pay average claims expenses for 60 days. For the plan year ended June 30, 2012, the District provided OIR with a certification that it had other available funding to compensate for the plan reserve shortage at June 30, 2012, and OIR accepted the plan as actuarially sound. For the plan year ended June 30, 2013, the District provided OIR with a similar certification regarding the reserve shortage at June 30, 2013; however, OIR did not accept the plan as actuarially sound. Actuarial projections provided in the June 16, 2014, annual report disclosed that $11.2 million and $6.2 million of other available funding was necessary to compensate for the plan reserve shortages for the plan years ending June 30, 2014 and 2015, respectively.

In a letter dated July 31, 2014, OIR advised the District that, for OIR to be able to accept the certification of actuarial soundness, the District should develop and file an aggressive and realistic multi-year proposal to eliminate the plan deficit, create the 60-day claim reserve, and bring the plan into statutory compliance. As of January 27, 2015, the District had not filed a proposal with OIR to eliminate the plan deficit; however, the annual report for the plan year ended June 30, 2014, was filed indicating planned premium changes and projecting adequate reserves to eliminate the plan deficit and create the 60-day claim reserve during the plan year ended June 30, 2017.

The annual report to OIR for the plan year ended June 30, 2014, was filed on October 3, 2014, and indicated the plan reserve shortage was $10.5 million. Although the June 30, 2014, plan reserve shortage was $1.8 million less than the plan reserve shortage at June 30, 2013, the reduction was mainly attributable to a $2.9 million transfer from the District's General Fund to the self-insurance internal service funds. In addition, actuarial projections provided in the October 3, 2014, annual report disclosed that $7.2 million and $2.3 million of other available funding was necessary to compensate for the plan reserve shortages for the plan years ending June 30, 2015 and 2016, respectively.

In an effort to improve the financial condition of the plan, the Board restructured its insurance premium rates effective July 1, 2014, and January 1, 2015, and modified its medical plan options. However, the Board had taken no official action to establish the plan's target net position balance or funding level to ensure that the plan is adequately funded to meet future obligations, and the plan reported an operating loss of $2.5 million for the 2013-14 fiscal year. Although the Board receives monthly financial reports to monitor the financial stability of the plan, and the December 31, 2014, monthly financial report disclosed that the net position balance of the plan had increased $2.4 million, future plan funding and design improvements may be needed to ensure net position balances are adequate to meet future obligations.

In a letter dated February 3, 2015, OIR indicated, because the plan is not actuarially sound, it does not meet the requirements to operate as a self-funded health plan pursuant to Section 112.08, Florida Statutes, and the Office is unable to accept the plan for continued operation in 2015. As such, it is imperative that the Board establish sufficient funding to avoid an adverse impact on the District's ability to meet health self-insurance obligations in the future.

**Recommendation: The Board should establish policies identifying a target net position balance or funding level for the health self-insurance plan and continue to take necessary actions to ensure adequate funding of the plan.**

### Finding No. 3: Health Insurance Plan – Premiums

The District's self-insurance plan provides health and prescription coverage for eligible participants including employees, retired former employees, allowable temporary extensions of health coverage under COBRA (Consolidated Omnibus Budget Reconciliation Act) for certain former employees, and eligible dependents. Pursuant to Section 1011.18(6)(b), Florida Statutes, the District contracted with a third party administrator (TPA) to coordinate its health and prescription coverage plans, and contracted with a service agent to process, investigate, and pay claims. During the 2013-14 fiscal year, the District reported health insurance plan expenses totaling $40.1 million, including claims expenses of $34.1 million, administrative expenses of $2.3 million, and other expenses of $3.7 million.

The District's contract with the TPA required the TPA to reconcile semi-monthly payroll deduction reports provided by the District's payroll department to identify all discrepancies, such as amounts not deducted and incorrect amounts deducted from employee paychecks; reconcile service agent invoices to employee counts; and handle all billing and collections for retiree premiums. District procedures provided for terminated employees and their dependents to be removed from the plan the last day of the month following the termination date, and such changes were to be made by the TPA based on information provided by the District's Human Resources Benefits Department.

The District also contracted with a company to perform a dependent eligibility audit for the purpose of ensuring that all dependents enrolled in the plan met the definition of an eligible dependent. The eligibility audit disclosed 322 ineligible dependents for which sufficient documentation had not been provided at the close of the audit on June 13, 2013. District personnel contacted employees with ineligible dependents through September 2013 to request the required documentation, and those dependents for which required documentation was not provided were to be removed from the plan effective October 6, 2013.

Our review of the TPA's reconciliations for the months of October 2013 and March 2014, and the eligibility of plan participants, disclosed the following:

- The District did not monitor the TPA's reconciliations of service agent invoices to payroll, retiree, or COBRA records to ensure they were performed timely and properly completed. For example, the October 2013 reconciliation, provided to us in November 2014, identified 108 participants included on the service agent invoice that did not match payroll, retiree, or COBRA records, and did not contain notations or other indicators to evidence follow-up and completion. In addition, the District was not notified by the TPA, of record, of the discrepancies identified for the 108 participants. We expanded our procedures to include the reconciliations prepared from July 2013 to December 2014 and noted that 8 of the 14 reconciliations prepared did not contain notations or other indicators to evidence follow-up and completion. In response to our inquiry, TPA personnel indicated that other assignments prevented the timely completion of the October 2013 reconciliation and that they were aware there were errors in the reconciliation process.

- The TPA's March 2014 reconciliation identified 23 former employees on the service agent invoice that should have been removed from the plan in previous months, including 2 that should have been removed in the 2012-13 fiscal year. The District paid medical claims, totaling $33,977, for 7 former employees from July 1, 2013, to June 30, 2014, after coverage should have been terminated, and monthly service agent administrative fees, totaling $7,482, for the 23 employees from July 2013 through December 2014. District personnel provided documentation evidencing that the former employees were removed from the plan from April 2014 to October 2014.
- The TPA's March 2014 reconciliation also identified 8 former employees on the service agent's invoice as COBRA participants that should have been removed from the plan in previous months. The District paid medical claims, totaling $8,051, for 4 former COBRA participants from July 1, 2013, to June 30, 2014, with service dates after coverage should have been terminated, and monthly service agent administrative fees, totaling $2,033, for the 8 employees from July 2013 through December 2014. District personnel provided documentation evidencing that the former COBRA participants were removed from the plan from May 2014 to February 2015.
- One former employee who paid premiums by personal check while on a leave of absence was included on the March 2014 service agent's invoice and continued to receive insurance coverage although the required premiums had not been paid since September 2013. The District paid medical claims, totaling $6,570, for the former employee from October 1, 2013, to June 30, 2014, after coverage should have been terminated, and monthly service agent administrative fees, totaling $519, from October 2013 through December 2014. District personnel provided documentation evidencing that the former employee was removed from the plan in January 2015.
- One of 10 plan participants tested had an ineligible dependent that exceeded the plan eligibility age. District personnel indicated that the eligibility audit previously identified the dependent as ineligible; however, the dependent remained on the plan through January 2015. We expanded our review to the District's list of 44 ineligible dependents identified through the eligibility audit that should have been removed from the plan as of October 6, 2013, and noted 12 additional dependents that remained on the plan for 7 to 16 months after they should have been removed. The District paid medical claims, totaling $1,780, for the ineligible dependents from October 6, 2013, to June 30, 2014, after coverage should have been terminated. District personnel provided documentation evidencing that the ineligible dependents were removed from the plan from April 2014 to January 2015.
- Five retirees, who previously had their health insurance premiums withheld from their retirement checks and paid directly to the District, were included on the March 2014 service agent invoice and continued to receive insurance coverage although the required premiums were not paid for 11 to 36 months. The District paid medical claims, totaling $1,566, for 2 retirees from July 1, 2013, to June 30, 2014, after coverage should have been terminated, and monthly service agent administrative fees, totaling $2,595, for the 5 retirees from July 2013 through December 2014. District personnel provided documentation evidencing that the retiree participants were removed from the plan from June 2014 to February 2015.
- Our review of the December 2014 billing statements for retirees who paid premiums by personal check disclosed that 12 of 52 retirees had amounts outstanding from previous billing periods, ranging from $22 to $2,789, totaling $7,277. In addition, one retiree had 11 outstanding invoices with periodic missed payments from October 2013. In response to our inquiry, District personnel indicated they did not have procedures for determining when retirees should be removed from the plan when payments are not made timely.

Without adequate procedures for verifying dependent eligibility and reconciling monthly health insurance billings to payroll records and retiree and COBRA insurance payments, the District is at increased risk of insuring ineligible dependents and providing healthcare coverage without receiving payment of required premiums.

**Recommendation: The District should enhance its controls to ensure eligibility of health insurance plan participants. Such procedures should include comparisons of premium paying employees, retirees, and COBRA records to plan participants and timely removal of ineligible dependents from the plan. The District should also establish responsibility for the various participant and dependent eligibility errors and, as appropriate, seek reimbursement for any excess claims and administrative costs identified, including the excess claims and administrative costs discussed above totaling $51,944 and $12,629, respectively.**

## Finding No. 4: Health Insurance Plan - Claims Payments

Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a service agent to administer its self-insurance plan, which includes medical, dental, and visions coverages. The service agent was responsible for evaluating and paying claims and monitoring excess insurance claims with reinsurers for the District. During the 2013-14 fiscal year, the District remitted $34.2 million to the service agent for claims payments and the service agent reported receiving excess insurance reimbursements of $1.8 million.

The District did not perform a review of claims documentation for its self-insurance plan for the 2013-14 fiscal year. It is necessary to review claims documentation to monitor the service agent's performance to ensure that claims payments were not made for ineligible charges. Our tests of claims documentation indicated that claims payments made by the service agent were supported; however, our audit tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

The District also purchased excess insurance through the service agent for individuals with claims that exceeded $300,000 per plan year (i.e., 2013 and 2014 calendar years). However, the District did not require the service agent to provide details of the excess insurance claims reported or the associated reimbursements received. Such details could include a list of claims that exceeded the reinsurance threshold and the associated reimbursements received for monitoring by the District to ensure all available reimbursements are received.

**Recommendation: The District should enhance its monitoring procedures over claims payments and excess insurance reimbursements reported by the service agent.**

## Finding No. 5: Contractual Services

The District is responsible for establishing controls to provide assurance that the process of contracting for services is effectively and consistently administered. Effective contract management requires following prescribed policies and procedures regarding the monitoring of contractor performance and service delivery to ensure compliance with the terms and conditions of the contract, verifying receipt of contract deliverables, and evaluating the achievement of District goals. Effective contract management also requires verification, prior to payment, that contractor-submitted charges are allowable, accurate, and adequately documented.

Board Policy 7.14, *Purchasing and Procurement Policies*, provides, in part, for Board approval of any purchase or contract of $50,000 or more, and authorizes the Superintendent to purchase contractual services without competitive solicitation where the total amount of the purchase is less than $50,000, and does not exceed the applicable appropriation in the District budget. The Board routinely enters into contracts for services and internal controls have generally been designed and implemented to ensure payments are consistent with bid awards and contract terms. For the 2013-14 fiscal year, payments for contractual services exceeded $4.5 million. To determine the propriety of payments for contractual services, we tested expenditures totaling $696,396 for 31 consultant services contracts and bids, and noted improvements were needed. For example:

- Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract, dated July 2013, the Sheriff was responsible for providing 10 school resource deputies (SRDs) that were assigned to specified schools during the 2013-14 school year and the District made two semi-annual payments of $196,990, totaling $393,980. In addition, pursuant to the contract, the District paid $57,500 for additional support provided at non-contracted middle schools; however, the contract did not specify a rate or outline terms and conditions for the additional support.

  The contract provided that each assigned SRD would be at their school eight hours a day when school was in session to provide school-based security, coordination of emergency services, and classroom presentations on law enforcement subjects. The contract also provided for SRDs to maintain weekly activity reports regarding his or her activities; however, District personnel indicated that the weekly activity reports were not submitted to or reviewed by school personnel.

  District personnel with direct knowledge of the of the SRD services did not document receipt of the services through time records, such as SRD sign-in, sign-out sheets, or rosters for both assigned SRDs and SRDs working at non-contracted schools. Further, detailed invoices were not provided to substantiate the dates, times, and locations for the additional support charges paid by the District totaling $57,500 at the non-contracted schools. District personnel indicated that although time records were not maintained, they were confident in the professionalism of the SRDs that duty hours were being satisfied.

- The District entered into a contract with an accounting firm to provide internal auditing services and, during the 2013-14 fiscal year, the District reported expenditures totaling $145,228 for the services. The contract with the firm provided for hourly compensation rates that ranged from $115 for accounting staff to $200 for managing directors. Invoices supporting payments to the firm identified services performed, service times, and related charges; however, District procedures did not ensure charges reconciled to Board-approved contract terms and conditions. Our initial test disclosed that the firm's invoices included hourly compensation rates that exceeded the contract rates by $10 per hour for certain staff. We expanded our testing to include payments to the firm totaling $55,233 for the 2013-14 fiscal year, through March 2014, and determined that overpayments totaled $5,673, with hourly compensation rates exceeding the contract rates by $10 and $25 per hour for certain staff. In response to our inquiry, District personnel indicated that the overpayment occurred as a result of the firm charging rates set forth in the engagement letter, rather than the Board-approved contract, and that they were working with the firm to obtain a refund or credit for future services rendered.

- The District entered into an agreement in August 2013, with a vendor for legislative consulting services totaling $10,200 to be invoiced at $850 per month. The agreement also required the consultant to provide a written report to the Board on activities throughout the Legislative session and to provide a summary report at the conclusion of the Legislative session. However, the District paid $4,150 more than the fees established in the contract. In addition, although District personnel indicated the consulting firm provided weekly updates during the Legislative session, a summary report at the conclusion of the session was not provided, contrary to the contract. District personnel indicated that the consulting firm calculated the monthly fee in error, resulting in the $4,150 overpayment. In response to our inquiry, District personnel indicated that as of December 2014 they had received a credit of $2,250 from the consulting firm for 2014-15 fiscal year services and intend to recover the remaining overpayment of $1,900 in the upcoming months.

- The District obtained specialized legal services from two legal firms and paid expenditures totaling $70,362 and $14,606, respectively. District personnel indicated that they obtained the specialized legal services through coordination with the Board Attorney and that the services on the related invoices were confirmed by District personnel with the Attorney prior to payment. In response to our request for copies of the agreements outlining the terms and conditions of the services to be provided and the basis for payment for the 2013-14 fiscal year, District personnel provided copies of agreements dated January 14 and 23, 2015. In addition, as the amount paid to one of the legal firms exceeded $50,000, a contract should have been, but was not, presented to the Board for approval as required by Board policy 7.14.

- The District issued a purchase order totaling $9,575 to a vendor providing psychiatric services for the exceptional student education program; however, the purchase order did not outline the terms and conditions of the services to be provided or the basis for payment. Our review disclosed that the District paid an hourly rate of $150 and a rate of $15 per written report generated. In response to our inquiry in June 2014, the District provided a purchase order for the 2014-15 fiscal indicating a rate of $150 per hour and $15 per report.

Without contractual provisions to establish required services and related service times, there is an increased risk that services may not be received consistent with the Board's intent. In addition, without effective procedures to confirm that services are received prior to payment and in compliance with provisions of the contract, there is an increased risk that errors or fraud could occur without timely detection.

**Recommendation: The District should ensure that written agreements clearly describe the nature of deliverables, enhance procedures to ensure that contractual services are received prior to payment, and ensure that payments for services are in accordance with governing contracts. In addition, the District should seek recovery of any overpayments, as appropriate.**

## 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. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in the VIP; and provide computer equipment, Internet access, and instructional materials to eligible students.

For the 2013-14 fiscal year, District records indicated enrollment of 632 part-time and 192 full-time VIP students. The District had written procedures addressing student eligibility, student progression requirements, attendance, mandated testing, and other VIP procedures. However, written policies and procedures could be expanded to include more detailed instructions for staff charged with administering VIPs regarding matters such as provider contract mandatory provisions and timely written parental notifications of VIP options. For example, policies and procedures could require District personnel to 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 VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies identified in finding Nos. 7 through 9.

**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: Virtual Instruction Program Written Parental Notifications**

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

For the 2013-14 school year, the District delegated the responsibility of communicating information about the District's VIP to its school principals. District personnel indicated that school principals used several communication methods to provide information about the District's VIP to parents and students. Such communication included the student progression plan and parent resource guide, information posted on the District's Web site, letters to parents sent home with students, classroom discussions with students, and individual parent conferences. While these methods indicate efforts by District personnel to communicate with parents and students about VIP options, District records did not evidence that written notifications were provided directly to parents. Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment period dates, potentially limiting student access to virtual instruction types.

**Recommendation: The District should enhance its procedures to ensure that records are maintained evidencing timely, written notifications to parents about student opportunities to participate in the District's VIP and open enrollment period dates.**

**Finding No. 8: Virtual Instruction Program Options**

Section 1002.45(1)(b), Florida Statutes, requires school districts that are not considered to be in sparsely-populated counties, as discussed in Section 1011.62(7), Florida Statutes, to provide students with at least three options to participate in virtual instruction. As the District is not in a sparsely-populated county, the District must offer at least three VIP types for all grade levels within the District's VIP.

The District provided students in grades 6 through 12 two options (instead of three), including a District franchise of the Florida Virtual School and a contracted provider, that each offered full-time and part-time instruction. The District also provided students in grades kindergarten through 5 two options (instead of three) for full-time instruction, including a District operated program and a contracted provider; however, except for fourth and fifth grade students that were eligible to take sixth grade courses based on certain test scores, part-time instruction was not provided to students in grades kindergarten through 5. Although the District had contracted with a provider for another curriculum for use in the District operated program for grades kindergarten through 5 on a full-time and part-time basis, the curriculum was not used during the 2013-14 fiscal year and the information provided to parents and students did not, of record, identify the curriculum as a VIP option. Nor were parents and students in grades kindergarten through 5 notified of an option to participate in a part-time program. Without offering the required options for VIP instruction, the District limited student access to virtual instruction types, contrary to Section 1002.45(1)(b), Florida Statutes.

**Recommendation: The District should ensure that it offers at least the minimum number of VIP options to all grade levels as required by law.**

**Finding No. 9: Virtual Instruction Program Provider Contract**

Section 1002.45(4), Florida Statutes, requires that each contract with a Florida Department of Education (FDOE)-approved VIP provider contain certain provisions. During the 2013-14 fiscal year, the District contracted with one FDOE-approved provider; however, the contract lacked certain statutorily-required or necessary provisions, as follows:

- The contract did not provide for the District to monitor the provider's compliance with contract terms or quality of the virtual instruction. Without such provisions, the District may be limited in its ability to perform such monitoring. Such monitoring could include confirmation or verification that the provider protected the confidentiality of student records and review of instruction techniques to ensure educational services appropriately meet student needs.
- The contract did not include a requirement that the provider utilize only teachers certified to teach in Florida. Section 1002.45(2)(a)3., Florida Statutes, requires all instructional personnel of District-approved VIP providers to be Florida-certified teachers under Chapter 1012, Florida Statutes. The inclusion of such a provision could help ensure that students receive the level of educational instruction intended by statute.
- The contract did not include provisions for data quality requirements. The provider maintains significant amounts of education data used to support the administration of the VIP and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be available in a timely manner. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.

Section 1002.45(2)(a)8.e., Florida Statutes, requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated with school districts. The District's contract with the FDOE-approved provider established student ratios ranging from 65:1 for grades kindergarten through 8 to 250:1 for grades 9 through 12 elective courses. However, District records did not evidence how the District determined the reasonableness of the established ratios. Without documenting the reasonableness of established ratios, the number of students in the VIP classes may exceed the District's expectation and the District's ability to monitor the quality of the provider's virtual instruction may be limited.

**Recommendation: The District should ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP. The District should also document the reasonableness of student-teacher ratios established in VIP provider contracts.**

**Finding No. 10: Information Technology – Timely Deactivation of Access Privileges**

Effective management of information technology (IT) access controls includes the timely deactivation of IT access privileges when an employee is terminated. Prompt action is necessary to ensure that IT access privileges are not misused by former employees or others to compromise data or IT resources.

According to the District's IT procedures manual, the Human Resources (HR) Department is responsible for entering a user account end date for terminating employees in the District's enterprise resource planning (ERP) system to ensure that access privileges of former employees are deactivated in a timely manner. Our test of 20 former employees who terminated employment during the 2013-14 fiscal year disclosed that access privileges for 9 former employees were deactivated from 10 to 47 days after termination of employment. In addition, District personnel indicated that, of these 9 former employees, 3 had logon activities to their e-mails and another 2 had logon activities to the ERP applications, subsequent to termination. District personnel indicated the untimely deactivations resulted from user account end dates being entered after the employee had already terminated.

When the access privileges of former employees are not timely deactivated, the risk is increased that the access privileges may be misused by the former employees or others.

**Recommendation: The District should enhance its controls to ensure that the access privileges of former employees are timely deactivated.**

**Finding No. 11: 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 IT resources. Our audit disclosed that certain District 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 related to user authentication was communicated to District management in connection with our report No. 2012-171.

**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.**

## PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except that finding No. 11 was also noted in prior audit report No. 2012-171 as finding No. 6.

## MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

| Audit Report No. and Federal Awards Finding No. | Program/Area | Brief Description | Status | Comments |
|---|---|---|---|---|
| Ernst & Young, LLP Finding 13-1 | Improving Teacher Quality State Grants (CFDA No. 84.367) - Period of Availability | The District incurred costs outside of the period of availability, resulting in questioned costs of $20,383. | Partially corrected. | The District submitted documentation of enhanced procedures to the grantor on June 30, 2014. However, a response has not been received and resolution of the questioned costs is pending from the grantor. |

## EXHIBIT A
## MANAGEMENT'S RESPONSE

ST. JOHNS COUNTY SCHOOL DISTRICT
EXCELLENCE IN PUBLIC EDUCATION SINCE 1869

Joseph G. Joyner, Ed.D.
*Superintendent of Schools*

40 Orange Street
St. Augustine, Florida 32084
(904) 547-7500
*www.stjohns.k12.fl.us*



March 23, 2015

Mr. David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, FL 32399-1450

**Re: St. Johns County School District Board's Written Responses to the Preliminary and Tentative Audit Findings for the fiscal year ended June 30, 2014**

Dear Mr. Martin:

The purpose of this letter is to submit the District's responses to the Preliminary and Tentative Audit Findings for the fiscal year ended June 30, 2014. Those responses are as follows:

***Finding No. 1 – Bus Drivers***

***District Response:***
The District will enhance its procedures to ensure that school bus drivers are appropriately licensed to operate school buses. The District will review and improve the process for reviewing bus driver records, personal injury protection insurance, and license suspensions. The District will also improve record keeping procedures and documentation for annual dexterity tests of bus drivers. Regarding licensed driving experience, the District will improve the process for validating the proof of five years of experience of each bus driver.

***Finding No. 2 – Group Health Self-Insurance Plan***

***District Response:***
The financial condition of the District's health plan is a priority. The Board is working diligently to establish sufficient funding to avoid adverse impact on the obligations of

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David W. Martin, CPA
March 23, 2015

the health plan. Due to the high cost of claims, the Board is currently contributing to the plan in addition to the contractual obligation with its employees. Changes to the responsibility of the funding and some plan design changes require union negotiations.

***Finding No. 3 – Health Insurance Plan - Premiums***

***District Response:***
The District will make changes regarding its monitoring of the services provided by the Third Party Administrator. The District is currently working to implement an EDI file feed between the District's business system and the medical claims provider. The file feed will eliminate some of the need for dual input with regard to terminations and enrollment by the Third Party Administrator leaving their focus on reconciliations as opposed to data entry. This will also correct many of the communication issues with regard to enrollment and removal from the District's plan.

In addition, the District will establish procedures related to individuals that self-pay insurance and have outstanding balances.

***Finding No. 4 – Health Insurance Plan – Claims Payments***

***District Response:***
The District will monitor claims on a monthly basis. The District will perform an audit of a sample of claims each month to determine that claims were paid appropriately.

The District will also request additional details regarding claims that exceeded the stop loss threshold.

***Finding No. 5 – Contractual Services***

***District Response:***
The District will enhance its procedures to ensure that service contracts are closely monitored to avoid any overpayments of any service fees and to ensure that those services have been appropriately delivered prior to any payments being released. This could be accomplished with enhancements to the purchasing and accounts payable modules within our system to track what agreements have been made, what fees have been agreed upon and the appropriate department responsible for the oversight of that particular contract.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Mr. David W. Martin, CPA
March 23, 2015

***Finding No. 6 – Virtual Instruction Program Policies and Procedures***

***District Response:***
Written policies and procedures will be expanded to include more detailed instructions that explicitly address all VIP related statutory requirements, with particular focus on the areas of staff, contracts, and notifications.

While District personnel currently survey parents to verify names of teachers providing the service and District staff verify that all VIP instructors are certified to teach in Florida, we will formalize and document the procedure.

***Finding No. 7 – Virtual Instruction Program Written Parental Notifications***

***District Response:***
The District will enhance its procedures to ensure that records are maintained evidencing timely, written notifications to parents about student opportunities to participate in the District's VIP and open enrollment period dates. While District staff took action to comply with the notification requirement based on having provided written notification by sending documents home with students as well as printing the notification on report cards, the procedure did not meet with expectations the State's recently communicated interpretation.

Corrective action already taken includes the District mailing the required notification to parents in a timely manner. In addition, the District will revise the process and procedure to ensure that all families receive timely, written notification to include increased evidence of such action.

***Finding No. 8 – Virtual Instruction Program Options***

***District Response:***
The District will ensure that it offers at least the minimum number of VIP options to all grade levels as required by law. While District staff believes that it did provide students the required minimum three different options to participate in virtual instruction, State-provided resources did not make clear that multiple, unique options provided by the same parent company would be considered as a single option. In addition, the State's interpretation that an option offered, but not selected by parents excluded the option from meeting qualifications was not clearly communicated. In an effort to expand our options to meet compliance requirements, the District did contract with an additional provider, marketed the option to over 1,000 families with no parents selecting the option resulting in an ineligible option.

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

Mr. David W. Martin, CPA
March 23, 2015

With the current interpretation in mind, the expansion of District franchise to include grades 1-5 and the addition of an Approved Provider for grades 6-12 are corrective actions in process.

***Finding No. 9 – Virtual Instruction Program Provider Contract***

***District Response:***
The District will ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP. The District will also document the reasonableness of student-teacher ratios established in VIP provider contracts. District staff incorrectly assumed that a component of the FLDOE approval of providers to offer virtual instruction programs to District VIPs would include the review and approval of standard contract requirements that included all provisions necessary to meet all statutory requirements. To further substantiate the assumption, the provider contract language in question was identical to all VIPs in the State prior to audit findings.

***Finding No. 10 – Information Technology – Timely Deactivation of Access Privileges***

***District Response:***
We will enhance controls to ensure more timely account deactivation.

***Finding No. 11 – Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity***

***District Response:***
We will improve IT security controls where noted.

Please feel free to contact my office if you have any questions concerning these matters.

Sincerely,

Joseph G. Joyner, Ed.D.
Superintendent of Schools
St. Johns County School District

cc: School Board Members
Cabinet

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