STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-157
March 2016

CLAY COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2015

Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Charles E. Van Zant, Jr., served as Superintendent and the following individuals served as Board members:

	District No.
Janice A. Kerekes, Vice Chair to 11-17-14	1
Carol Y. Studdard, Chair to 11-17-14	2
Betsy Condon, Vice Chair from 11-18-14	3
Johnna L. McKinnon, Chair from 11-18-14	4
Ashley Gilhousen	5

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

The team leader was Sue Granger and the audit was supervised by Randy R. Arend, CPA.
For the information technology portion of this audit, the team leader was Joseph Garcia and the audit supervisor was Heidi G. Burns, CPA, CISA.

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

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

CLAY COUNTY DISTRICT SCHOOL BOARD

TABLE OF CONTENTS

CLAY COUNTY DISTRICT SCHOOL BOARD

TABLE OF CONTENTS (CONTINUED)

SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Additional Matters

Finding 1: At June 30, 2015, and at the end of each of the two previous fiscal years (June 30, 2013, and June 30, 2014), the District's General Fund total assigned and unassigned fund balances have been only slightly over 2 percent of the Fund's total revenues. As a result, the District has had fewer resources for emergencies and unforeseen situations than other school districts of comparable size. Similar findings were noted in audit reports for the 2012-13 and 2013-14 fiscal years.

Finding 2: The Board needs to develop a formal plan for monitoring the financial condition of the Internal Service Fund and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the self-insurance program.

Finding 3: The Board could enhance policies and procedures for the mitigation, detection, and reporting of fraud.

Finding 4: The District did not always timely perform required background screenings for applicable instructional and noninstructional employees and charter school employees and board members.

Finding 5: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Similar findings were noted in our report Nos. 2011-142 and 2013-156.

Finding 6: The District needs to improve controls over contractual service agreements and related payments.

Finding 7: District records did not evidence that the District's charter schools maintained appropriate insurance coverage.

Finding 8: As similarly noted in our report Nos. 2011-142 and 2013-156, the District needs to strengthen controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding 9: District controls need to be enhanced to ensure that inventory items purchased by the Transportation Department are appropriately accounted for and safeguarded.

Finding 10: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding 11: The District did not offer the required number of VIP options to all students.

Finding 12: The District could enhance procedures to better ensure that timely, written notifications are provided to parents about all VIP options offered.

Finding 13: The VIP provider contract did not include certain necessary provisions and District records did not evidence the basis upon which District personnel determined the reasonableness of student-teacher ratios established in the Florida Department of Education approved VIP provider contract.

Finding 14: District records did not evidence that VIP provider employees were subject to required background screenings.

Finding 15: District records did not always evidence that the District provided computing resources only to qualifying VIP students.

Finding 16: The District's computer security incident response plan had not been completed and needs to be improved to promote an appropriate, effective, and timely response by District management to security incidents. In addition, the District's response team had not been trained to ensure adequate preparation for team member roles and responsibilities. A similar finding was noted in our report No. 2013-156.

Finding 17: Some unnecessary or inappropriate information technology (IT) access privileges continue to exist. In addition, as similarly noted in our report Nos. 2011-142 and 2013-156, District management did not have procedures in place for the periodic review of IT access privileges to timely detect unnecessary or inappropriate access privileges.

Finding 18: District management had not developed written policies and procedures for the timely deactivation of access privileges when employees are reassigned or separate from District employment, and the District did not timely deactivate two former employees' access privileges. A similar finding was noted in our report No. 2013-156.

Finding 19: The District did not have a written IT disaster recovery plan.

Finding 20: District security controls related to user authentication, data loss prevention, and monitoring of system activity continue to need improvement.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster and Special Education Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2015-001: The District did not maintain required documentation to support salary and benefit charges for several District employees.

Federal Awards Finding No. 2015-002: The District's contributions to its workers' compensation self-insurance program did not follow a consistent costing policy and were not allocated as a general administrative expense to all District activities, resulting in questioned costs of $97,009.36 for the Child Nutrition Cluster, $98,425.76 for the Special Education Cluster, and $42,605.77 for the Title I Program.

AUDIT OBJECTIVES AND SCOPE

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

AUDIT METHODOLOGY

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

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

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

Phone: (850) 412-2722
Fax: (850) 488-6975

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 Clay County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 30 percent of the assets and 50 percent of the liabilities of the aggregate remaining fund information. In addition, 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 opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 of the Clay County District School Board, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 24, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

- As of June 30, 2015, the assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources by $272,256,621.55.
- The District's total net position decreased $122,570,645.86 from the 2013-14 fiscal year due, in part, to the recognition of pension related liabilities and deferred outflows/inflows of resources required by Governmental Accounting Standards Board (GASB) Statement No. 68.
- General revenues total $282,214,997.74, or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $18,000,245.31, or 6 percent of all revenues.
- Expenses total $298,298,313.91. Only $18,000,245.31 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals $6,584,542.68, which is $753,025.35 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances, which represents net current financial resources available for general appropriation by the Board, was $5,089,673.43, or 2.08 percent of total General Fund revenues.
- The District's capital asset-related debt decreased by a net amount of $3,702,774.02, or 6.24 percent, mainly from the redemption of debt principal.
- At the end of the current fiscal year, the net position of the Internal Service Fund was a deficit of $1,458,604.48, which is $2,268,117.30 less than the prior fiscal year balance.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The Orange Park Performing Arts Academy, Inc. and the Northeast Florida Virtual Charter School Board, Inc., d/b/a Florida Virtual Academy at Clay, are legally separate organizations and component units that 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 Clay 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, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

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

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

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

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position, End of Year

	Governmental Activities	
	6-30-15	**6-30-14**
Current and Other Assets	$ 42,216,645.31	$ 40,969,031.30
Capital Assets	442,325,192.52	453,453,292.19
Total Assets	484,541,837.83	494,422,323.49
Deferred Outflows of Resources	20,564,341.00	-
Long-Term Liabilities	167,487,426.36	85,501,734.20
Other Liabilities	14,345,316.92	14,093,321.88
Total Liabilities	181,832,743.28	99,595,056.08
Deferred Inflows of Resources	51,016,814.00	-
Net Position:		
Net Investment in Capital Assets	386,727,780.68	394,153,106.33
Restricted	17,596,366.58	14,391,249.32
Unrestricted (Deficit)	(132,067,525.71)	(13,717,088.24)
Total Net Position	$ 272,256,621.55	$ 394,827,267.41

The increases in long-term liabilities, deferred outflows and inflows of resources, and the decrease in net position were largely impacted by the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This accounting standard requires the District, as a participating employer in the Florida Retirement System (FRS), to recognize its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. Changes in liabilities are recognized through the statement of activities, or reported as deferred outflows or inflows of resources on the statement of net position, depending on the nature of the change.

The largest portion of the District's net position ($386,727,780.68) 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 ($17,596,366.58) represents resources that are subject to external restrictions on how they may be used.

The unrestricted net position is a deficit of $132,067,525.71 due primarily to the implementation of GASB Statement No. 68. However, the District has sufficient current assets to meet its current obligations.

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

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-15	**6-30-14**
Program Revenues:		
Charges for Services	$ 5,946,920.01	$ 6,980,469.52
Operating Grants and Contributions	9,823,022.02	8,660,150.48
Capital Grants and Contributions	2,230,303.28	1,690,345.30
General Revenues:		
Property Taxes, Levied for Operational Purposes	52,785,571.96	52,298,781.57
Property Taxes, Levied for Capital Projects	13,837,614.26	12,953,678.13
Local Sales Taxes	1,815,815.35	1,701,699.42
Impact Fees	5,963,994.64	5,635,793.44
Grants and Contributions Not Restricted to Specific Programs	205,125,501.18	200,331,780.21
Unrestricted Investment Earnings	50,014.55	(45,819.26)
Miscellaneous	2,636,485.80	3,072,218.26
Total Revenues	300,215,243.05	293,279,097.07
Functions/Program Expenses:		
Instruction	172,557,519.69	176,558,487.98
Student Personnel Services	14,818,650.65	14,560,771.49
Instructional Media Services	3,798,466.37	4,241,232.93
Instruction and Curriculum Development Services	5,235,515.13	5,190,168.67
Instructional Staff Training Services	4,114,811.79	3,917,952.56
Instructional-Related Technology	3,095,786.73	2,720,975.11
Board	1,231,255.45	1,082,776.90
General Administration	1,232,918.05	1,156,515.12
School Administration	14,430,045.23	14,946,629.36
Facilities Acquisition and Construction	3,665,717.08	5,955,547.65
Fiscal Services	727,213.81	677,700.48
Food Services	15,665,816.54	14,508,445.48
Central Services	3,224,118.82	3,239,332.35
Student Transportation Services	12,844,471.15	12,961,378.00
Operation of Plant	17,917,628.44	18,146,470.96
Maintenance of Plant	4,937,848.02	5,321,603.30
Administrative Technology Services	1,404,505.81	1,789,321.59
Community Services	250,255.49	309,130.06
Unallocated Interest on Long-Term Debt	2,801,907.68	2,718,296.05
Unallocated Depreciation Expense	14,343,861.98	14,590,346.44
Total Functions/Program Expenses	298,298,313.91	304,593,082.48
Change in Net Position	1,916,929.14	(11,313,985.41)
Net Position, Beginning of Year	394,827,267.41	406,141,252.82
Adjustment to Beginning Net Position (1)	(124,487,575.00)	-
Net Position - Beginning, as Restated	270,339,692.41	406,141,252.82
Net Position - Ending	$ 272,256,621.55	$ 394,827,267.41

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

The State's Florida Education Finance Program (FEFP) and local property taxes provide the majority of the District's revenues for current operations. These revenues are included in general revenues, which provide about 94 percent of total revenues, whereas program revenues provide only about 6 percent. The majority of program revenues (83.69 percent) are in the food services activity.

The FEFP funding formula is used to allocate State revenue sources for current District operations and, utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by $4,793,720.97, or 2.39 percent, primarily due to an increase in FEFP revenues from the State. FEFP revenues increased by $3,153,373, or 2.22 percent, in part, because student enrollment increased by 350 students, from 35,245 in the 2013-14 fiscal year to 35,595 in the 2014-15 fiscal year.

Instruction expenses represent about 58 percent of total governmental expenses in the 2013-14 and 2014-15 fiscal years. Overall, expenses decreased $6,294,768.57, or 2.07 percent, from the previous fiscal year.

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 increased by $2,631,456.64 during the fiscal year to $23,620,920.06 at June 30, 2015. Of the total fund balance, $3,041,578.96, or 12.88 percent, is unassigned; $1,027,862.98 is nonspendable; $17,503,383.65 is restricted; and $2,048,094.47 is assigned.

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $3,041,578.96, while the total fund balance is $6,584,542.68. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is $5,089,673.43, or 2.08 percent of the total General Fund revenues, while the total fund balance represents 2.69 percent of such revenues. The assigned and unassigned fund balance decreased by $299,821.97, while the total fund balance decreased by $753,025.35 during the fiscal year.

Key factors impacting the change in fund balance are as follows:

- Total revenues increased by $4,352,811.24, or 1.81 percent, due mainly to increases in FEFP revenues and property taxes levied for operational purposes.

- Total expenditures increased by $5,438,232.08, or 2.2 percent, due mainly to increases in contracted substitute teacher, charter school, and textbook costs.
- Total expenditures exceeded total revenues and other financing sources by $595,263.92.

The Special Revenue - Other Fund is used to account for Federal grants administered through the State's cash advance system, and has total revenues and expenditures of $15,054,311.69 each. The funding was mainly used for instructional activities. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Debt Service - Other Debt Service Fund is used to account for financial resources used to pay debt principal, interest, and related costs for the certificates of participation. The fund maintained a small fund balance, $72,163.94 at June 30, 2015, which is restricted for debt service payments.

The Capital Projects - Other Capital Projects Fund is mainly used to account for the financial resources received from local impact fees, local sales taxes, and other miscellaneous sources to be used for educational capital outlay needs, including new construction and renovation and remodeling projects. The total fund balance increased $3,840,417.76, or 51.16 percent, to $11,347,229.63 at June 30, 2015, from the accumulation of financial resources for future construction and renovation projects. Transfers out were to provide for debt service payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of $1,205,476.34, or 0.49 percent. At the same time, final appropriations exceeded the original budgeted amounts by $3,131,217.93. Budget revisions occurred primarily from changes in estimated State funding levels and adjustments to planned instruction expenditures for contracted substitute teachers, charter schools, and textbooks.

Actual revenues were less than the final budgeted amounts by $1,359,812.27, while actual expenditures are $3,645,071.27, or 1.42 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $3,197,961.01.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2015, is $442,325,192.52 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; construction in progress; and audio visual materials and computer software.

The investment in capital assets decreased by a net amount of $11,128,099.67, or 2.45 percent, as compared to the June 30, 2014, balance, mainly from depreciation expenses for the 2014-15 fiscal year.

Major capital asset events during the 2014-15 fiscal year included various heating, ventilation, and air conditioning replacement projects and renovation and remodeling projects at various schools.

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

Long-Term Debt

At June 30, 2015, the District has total long-term debt outstanding of $55,597,411.84, composed of $4,276,000 of bonds payable, $51,312,000 of certificates of participation, and $9,411.84 of obligation under capital lease. During the 2014-15 fiscal year, capital asset-related debt decreased by $3,702,774.02, or 6.24 percent from the June 30, 2014, balance, mainly from the redemption of debt principal.

In January 2016, Fitch Ratings downgraded the District's Certificates of Participation, Series 2005B and Series 2012, to "A" from "A+", downgraded the District Revenue Bonds, Series 2010, to "A+" from "AA-", and revised the rating outlook to stable from negative.

Additional information on the District's long-term debt can be found in Notes IV.I.1. through IV.I.5. to the financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent for Business Services, Clay County District School Board, 900 Walnut Street, Green Cove Springs, Florida 32043.

THIS PAGE INTENTIONALLY LEFT BLANK

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 29,957,536.05	$ 102,609.00
Investments	48,481.46	-
Accounts Receivable	430,678.04	-
Interest Receivable	111,281.63	-
Due from Primary Government	-	91,105.00
Due from Other Agencies	5,302,253.51	-
Prepaid Items	1,140,697.00	9,793.00
Inventories	1,053,014.26	-
Capital Credits Receivable	4,172,703.36	-
Capital Assets:		
Nondepreciable Capital Assets	31,397,983.37	-
Depreciable Capital Assets, Net	410,927,209.15	64,418.00
TOTAL ASSETS	484,541,837.83	267,925.00
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	20,564,341.00	-
LIABILITIES		
Accrued Salaries and Benefits	5,734,852.81	59,280.00
Payroll Deductions and Withholdings	1,812,772.20	-
Accounts Payable	2,335,477.64	106,180.00
Construction Contracts Payable	79,894.22	-
Construction Contracts Payable - Retainage	85,462.85	-
Due to Component Units	91,105.00	-
Due to Other Agencies	-	1,188.00
Matured Certificates of Participation Payable	3,143,000.00	-
Matured Interest Payable	1,052,619.55	-
Advanced Revenues	10,132.65	-
Long-Term Liabilities:		
Portion Due Within One Year	18,909,120.52	-
Portion Due After One Year	148,578,305.84	298,600.00
TOTAL LIABILITIES	181,832,743.28	465,248.00
DEFERRED INFLOWS OF RESOURCES		
Pensions	51,016,814.00	-
NET POSITION		
Net Investment in Capital Assets	386,727,780.68	64,418.00
Restricted for:		
State Required Carryover Programs	559,989.20	-
Food Service	3,137,811.79	-
Debt Service	402,358.55	-
Capital Projects	13,496,207.04	-
Unrestricted	(132,067,525.71)	(261,741.00)
TOTAL NET POSITION	$ 272,256,621.55	$ (197,323.00)

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

Clay County District School Board
Statement of Activities
For the Fiscal Year Ended June 30, 2015

			Program Revenues
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs			
Primary Government			
Governmental Activities:			
Instruction	$ 172,557,519.69	$ 215,561.54	$ -
Student Personnel Services	14,818,650.65	-	-
Instructional Media Services	3,798,466.37	-	-
Instruction and Curriculum Development Services	5,235,515.13	-	-
Instructional Staff Training Services	4,114,811.79	-	-
Instructional-Related Technology	3,095,786.73	-	-
Board	1,231,255.45	-	-
General Administration	1,232,918.05	-	-
School Administration	14,430,045.23	-	-
Facilities Acquisition and Construction	3,665,717.08	-	-
Fiscal Services	727,213.81	-	-
Food Services	15,665,816.54	5,240,844.98	9,823,022.02
Central Services	3,224,118.82	-	-
Student Transportation Services	12,844,471.15	-	-
Operation of Plant	17,917,628.44	-	-
Maintenance of Plant	4,937,848.02	-	-
Administrative Technology Services	1,404,505.81	-	-
Community Services	250,255.49	490,513.49	-
Unallocated Interest on Long-Term Debt	2,801,907.68	-	-
Unallocated Depreciation Expense*	14,343,861.98	-	-
Total Primary Government	$ 298,298,313.91	$ 5,946,920.01	$ 9,823,022.02
Component Units			
Charter Schools	$ 1,736,746.00	$ 8,298.00	$ 117,154.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
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

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

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government — Governmental Activities	Component Units
$ -	$ (172,341,958.15)	$ -
-	(14,818,650.65)	-
-	(3,798,466.37)	-
-	(5,235,515.13)	-
-	(4,114,811.79)	-
-	(3,095,786.73)	-
-	(1,231,255.45)	-
-	(1,232,918.05)	-
-	(14,430,045.23)	-
1,317,397.78	(2,348,319.30)	-
-	(727,213.81)	-
-	(601,949.54)	-
-	(3,224,118.82)	-
-	(12,844,471.15)	-
-	(17,917,628.44)	-
-	(4,937,848.02)	-
-	(1,404,505.81)	-
-	240,258.00	-
912,905.50	(1,889,002.18)	-
-	(14,343,861.98)	-
$ 2,230,303.28	(280,298,068.60)	-
$ 0.00	-	(1,611,294.00)
	52,785,571.96	-
	13,837,614.26	-
	1,815,815.35	-
	5,963,994.64	-
	205,125,501.18	1,381,640.00
	50,014.55	-
	2,636,485.80	32,331.00
	282,214,997.74	1,413,971.00
	1,916,929.14	(197,323.00)
	394,827,267.41	-
	(124,487,575.00)	-
	270,339,692.41	-
	$ 272,256,621.55	$ (197,323.00)

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

	General Fund	Special Revenue - Other Fund	Debt Service - Other Debt Service Fund
ASSETS			
Cash and Cash Equivalents	$ 9,756,085.58	$ 21.40	$ 4,261,486.74
Investments	-	-	-
Accounts Receivable	175,647.53	124,052.41	-
Interest Receivable	53,748.88	1,072.14	30.13
Due from Other Funds	3,305,785.44	-	6,861.98
Due from Other Agencies	1,020,535.36	2,791,239.04	-
Inventories	934,880.05	-	-
TOTAL ASSETS	$ 15,246,682.84	$ 2,916,384.99	$ 4,268,378.85
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accrued Salaries and Benefits	$ 5,719,225.65	$ 8,603.20	$ -
Payroll Deductions and Withholdings	1,785,991.54	13,304.07	-
Accounts Payable	1,065,817.97	9,251.12	-
Construction Contracts Payable	-	-	-
Construction Contracts Payable - Retainage	-	-	-
Due to Other Funds	-	2,875,093.95	595.36
Due to Component Units	91,105.00	-	-
Matured Certificates of Participation Payable	-	-	3,143,000.00
Matured Interest Payable	-	-	1,052,619.55
Advanced Revenues	-	10,132.65	-
Total Liabilities	8,662,140.16	2,916,384.99	4,196,214.91
Deferred Inflows of Resources:			
Unavailable Revenue - Capital Outlay and Debt Service	-	-	-
Total Deferred Inflows of Resources	-	-	-
Fund Balances:			
Nonspendable:			
Inventories	934,880.05	-	-
Restricted for:			
State Required Carryover Programs	559,989.20	-	-
Food Service	-	-	-
Debt Service	-	-	72,163.94
Capital Projects	-	-	-
Total Restricted Fund Balance	559,989.20	-	72,163.94
Assigned for:			
Local Programs and Other Purposes	2,048,094.47	-	-
Unassigned Fund Balance	3,041,578.96	-	-
Total Fund Balances	6,584,542.68	-	72,163.94
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 15,246,682.84	$ 2,916,384.99	$ 4,268,378.85

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

Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ 10,906,500.28	$ 4,993,300.99	$ 29,917,394.99
-	48,481.46	48,481.46
-	4,318.64	304,018.58
18,810.67	37,619.81	111,281.63
-	80.57	3,312,727.99
554,639.47	935,839.64	5,302,253.51
-	118,134.21	1,053,014.26
$ 11,479,950.42	$ 6,137,775.32	$ 40,049,172.42
$ -	$ 7,023.96	$ 5,734,852.81
-	13,476.59	1,812,772.20
-	119,711.55	1,194,780.64
-	79,894.22	79,894.22
-	85,462.85	85,462.85
132,720.79	144,599.89	3,153,009.99
-	-	91,105.00
-	-	3,143,000.00
-	-	1,052,619.55
-	-	10,132.65
132,720.79	450,169.06	16,357,629.91
-	70,622.45	70,622.45
-	70,622.45	70,622.45
-	92,982.93	1,027,862.98
-	-	559,989.20
-	3,044,828.86	3,044,828.86
-	330,194.61	402,358.55
11,347,229.63	2,148,977.41	13,496,207.04
11,347,229.63	5,524,000.88	17,503,383.65
-	-	2,048,094.47
-	-	3,041,578.96
11,347,229.63	5,616,983.81	23,620,920.06
$ 11,479,950.42	$ 6,137,775.32	$ 40,049,172.42

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

Total Fund Balances - Governmental Funds			$ 23,620,920.06
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.			442,325,192.52
Capital outlay and debt service funds due from other agencies are not available to pay for current period expenditures and, therefore, are reported as a deferred inflow of resources - unavailable revenue on the governmental funds statements.			70,622.45
Capital credits are not available to liquidate liabilities in governmental funds, but are accrued in governmental activities in the statement of net position.			4,172,703.36
An internal service fund is used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal Service Fund is included in governmental activities in the statement of net assets.			(1,458,604.48)
Deferred outflows of resources and deferred inflows of resources related to the cost-sharing pensions are applicable to future periods and, therefore, are not reported in the governmental funds.			
Deferred Outflows Related to Pensions	$	20,564,341.00	
Deferred Inflows Related to Pensions		(51,016,814.00)	(30,452,473.00)
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:			
Obligations Under Capital Lease	$	(9,411.84)	
Bonds Payable		(4,276,000.00)	
Certificates of Participation Payable		(51,312,000.00)	
Compensated Absences Payable		(20,035,626.52)	
Net Pension Liability		(86,961,128.00)	
Other Postemployment Benefits Payable		(3,427,573.00)	(166,021,739.36)
Net Position - Governmental Activities			$ 272,256,621.55

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

THIS PAGE INTENTIONALLY LEFT BLANK

Clay County District School Board
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Special Revenue - Other Fund	Debt Service - Other Debit Service Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 785,615.91	$ 1,175,160.83	$ -
Federal Through State and Local	1,524,319.75	13,873,088.29	-
State	187,246,843.06	-	-
Local:			
Property Taxes	52,785,571.96	-	-
Local Sales Taxes	-	-	-
Impact Fees	-	-	-
Charges for Services - Food Service	-	-	-
Miscellaneous	2,734,623.44	6,062.57	908.98
Total Local Revenues	55,520,195.40	6,062.57	908.98
Total Revenues	245,076,974.12	15,054,311.69	908.98
Expenditures			
Current - Education:			
Instruction	167,163,724.11	9,642,578.70	-
Student Personnel Services	13,814,379.89	1,521,476.87	-
Instructional Media Services	3,891,092.90	28,834.63	-
Instruction and Curriculum Development Services	4,167,505.78	1,260,981.00	-
Instructional Staff Training Services	2,320,852.14	1,821,070.51	-
Instructional-Related Technology	3,176,832.52	2,399.00	-
Board	903,193.42	-	-
General Administration	805,643.88	451,728.09	-
School Administration	14,972,015.34	6,062.59	-
Facilities Acquisition and Construction	986,294.93	-	-
Fiscal Services	750,026.66	-	-
Food Services	86,679.89	-	-
Central Services	3,256,563.72	-	-
Student Transportation Services	10,448,803.24	51,553.16	-
Operation of Plant	18,166,824.56	-	-
Maintenance of Plant	5,032,438.29	-	-
Administrative Technology Services	1,440,280.29	-	-
Community Services	257,296.27	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	313,111.14	-	-
Other Capital Outlay	783,086.13	267,627.14	-
Debt Service:			
Principal	5,774.02	-	3,143,000.00
Interest and Fiscal Charges	282.38	-	2,332,313.38
Total Expenditures	252,742,701.50	15,054,311.69	5,475,313.38
Excess (Deficiency) of Revenues Over Expenditures	(7,665,727.38)	-	(5,474,404.40)
Other Financing Sources (Uses)			
Transfers In	6,860,208.26	-	5,354,572.78
Refunding Certificates of Participation Issued	-	-	17,540,000.00
Refunding Bonds Issued	-	-	-
Premium on Refunding Bonds	-	-	-
Payments to Refunding Escrow Agent	-	-	(17,419,251.70)
Sale of Capital Assets	199,932.69	-	-
Loss Recoveries	10,322.51	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	7,070,463.46	-	5,475,321.08
Net Change in Fund Balances	(595,263.92)	-	916.68
Fund Balances, Beginning	7,337,568.03	-	71,247.26
Increase (Decrease) in Nonspendable Inventory	(157,761.43)	-	-
Fund Balances, Ending	$ 6,584,542.68	$ 0.00	$ 72,163.94

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

Capital Projects - Other Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,960,776.74
-	9,786,540.01	25,183,948.05
70,000.00	2,423,627.90	189,740,470.96
-	13,837,614.26	66,623,186.22
1,815,815.35	-	1,815,815.35
5,963,994.64	-	5,963,994.64
-	5,240,844.98	5,240,844.98
17,995.34	33,567.93	2,793,158.26
7,797,805.33	19,112,027.17	82,436,999.45
7,867,805.33	31,322,195.08	299,322,195.20
-	-	176,806,302.81
-	-	15,335,856.76
-	-	3,919,927.53
-	-	5,428,486.78
-	95,281.99	4,237,204.64
-	-	3,179,231.52
-	-	903,193.42
-	-	1,257,371.97
-	-	14,978,077.93
883,803.64	1,823,668.70	3,693,767.27
-	-	750,026.66
-	15,876,722.40	15,963,402.29
-	-	3,256,563.72
-	-	10,500,356.40
-	-	18,166,824.56
-	-	5,032,438.29
-	-	1,440,280.29
-	-	257,296.27
763,312.67	2,788,723.29	3,865,147.10
-	238,951.34	1,289,664.61
-	905,000.00	4,053,774.02
-	213,611.38	2,546,207.14
1,647,116.31	21,941,959.10	296,861,401.98
6,220,689.02	9,380,235.98	2,460,793.22
-	-	12,214,781.04
-	-	17,540,000.00
-	1,256,000.00	1,256,000.00
-	90,160.47	90,160.47
-	(1,371,609.31)	(18,790,861.01)
-	-	199,932.69
-	-	10,322.51
(2,380,271.26)	(9,834,509.78)	(12,214,781.04)
(2,380,271.26)	(9,859,958.62)	305,554.66
3,840,417.76	(479,722.64)	2,766,347.88
7,506,811.87	6,073,836.26	20,989,463.42
-	22,870.19	(134,891.24)
$ 11,347,229.63	$ 5,616,983.81	$ 23,620,920.06

Clay County District School Board
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

Net Change in Fund Balances - Governmental Funds			$ 2,766,347.88
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year.			
Capital Outlay Expenditures	$	5,154,811.71	
Depreciation Expense - Governmental Activities		(16,519,483.91)	
Donated Assets		319,847.79	(11,044,824.41)
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets.			(83,275.00)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current fiscal year.			
Refunding Bonds Issued	$	(1,256,000.00)	
Refunding Bonds Retired		1,325,000.00	
Certificates of Participation Issued		(17,540,000.00)	
Certificates of Participation Retired		17,120,000.00	
Bonds Payable Principal Payments		905,000.00	
Certificates of Participation Payable Principal Payments		3,143,000.00	
Obligations Under Capital Lease Principal Payments		5,774.02	3,702,774.02
The District accrues capital credits to be received in future years in the statement of activities, but the revenue does not provide current financial resources and is not reported in the governmental funds. This is the net increase in capital credits receivable in the current period.			
Current Year Accruals	$	4,172,703.36	
Prior Year Accruals		(3,799,337.43)	373,365.93
The purchases method of inventory accounting is used in the governmental funds while in the government-wide statements inventories are accounted for on the consumption method.			(134,891.24)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.			1,630,846.81
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.			(169,894.00)
Governmental funds report district pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.			
FRS Pension Contribution	$	11,169,189.00	
HIS Pension Contribution		2,351,792.00	
FRS Pension Expense		(2,496,505.00)	
HIS Pension Expense		(3,950,502.00)	7,073,974.00
Certain funds due from other agencies are not available, and therefore, not recognized as revenue in the governmental fund statements. However, funds are recognized as revenue under the full accrual basis of accounting in the statement of activities.			70,622.45
An internal service fund is used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of the Internal Service Fund is reported with governmental activities.			(2,268,117.30)
Change in Net Position - Governmental Activities			$ 1,916,929.14

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

Clay County District School Board
Statement of Net Position – Proprietary Fund
June 30, 2015

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 40,141.06
Accounts Receivable	67,941.46
Prepaid Expense	1,140,697.00
TOTAL ASSETS	1,248,779.52
LIABILITIES	
Current Liabilities:	
Accounts Payable	1,140,697.00
Due to Other Funds	101,000.00
Estimated Insurance Claims Payable	546,701.25
Total Current Liabilities	1,788,398.25
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	918,985.75
TOTAL LIABILITIES	2,707,384.00
NET POSITION	
Unrestricted	(1,458,604.48)
TOTAL NET POSITION	$ (1,458,604.48)

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

Clay County District School Board
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund
For the Fiscal Year Ended June 30, 2015

		Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Insurance Premiums	$	369,112.90
OPERATING EXPENSES		
Insurance Claims		858,680.25
Excess Insurance Premiums		1,582,279.77
State Assessments		42,403.92
Purchases Services		156,098.00
Total Operating Expenses		2,639,461.94
Operating Loss		(2,270,349.04)
NONOPERATING REVENUES		
Interest		2,231.74
Change in Net Position		(2,268,117.30)
Total Net Position - Beginning		809,512.82
Total Net Position - Ending	$	(1,458,604.48)

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

Clay County District School Board
Statement of Cash Flows – Proprietary Fund
For the Fiscal Year Ended June 30, 2015

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds	$ 369,112.90
Cash Payments to Suppliers for Goods and Services	(900,390.02)
Cash Payments for Insurance Claims	(670,389.25)
Net Cash Used by Operating Activities	(1,201,666.37)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturity of Investments	17,215.67
Interest Income	2,231.74
Net Cash Provided by Investing Activities	19,447.41
Net Decrease in Cash and Cash Equivalents	(1,182,218.96)
Cash and Cash Equivalents, Beginning	1,222,360.02
Cash and Cash Equivalents, Ending	$ 40,141.06

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

Operating Loss	$ (2,270,349.04)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(67,941.46)
Due from Other Agencies	95,683.57
Prepaid Expenses	68,368.72
Due From Other Funds	793,792.71
Accounts Payable	(68,368.72)
Due To Other Funds	58,856.85
Estimated Insurance Claims Payable	188,291.00
Total Adjustments	1,068,682.67
Net Cash Used by Operating Activities	$ (1,201,666.37)

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

Clay County District School Board
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds
June 30, 2015

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 3,183,720.00
LIABILITIES	
Accounts Payable	73,418.00
Due to Other Funds	58,718.00
Internal Accounts Payable	3,051,584.00
Total Liabilities	$ 3,183,720.00

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

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities are supported by taxes, intergovernmental revenues, and other nonexchange transactions. Likewise, 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 Clay 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 associated with the District's transportation department is allocated to the student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Clay County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Clay 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 Government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the District. The Clay 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.2. 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.

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.

During the 2014-15 fiscal year, two new charter schools were opened, the Orange Park Performing Arts Academy, Inc., and the Florida Virtual Academy at Clay. The general operating authority of the charter schools is contained in Section 1002.33, Florida Statutes. The Orange Park Performing Arts Academy, Inc. and the Northeast Florida Virtual Charter School Board, Inc., which owns and operates the Florida Virtual Academy at Clay, are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The charter schools operate under charters approved by their sponsor, the Board. The District may choose not to renew the charters under grounds specified in the charters. During the term of the charters, the District may terminate the charters if good cause is shown. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2015. The audit reports are filed in the District's administrative offices at 900 Walnut Street, Green Cove Springs, Florida 32043.

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. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- 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 long-term certificates of participation.
- Capital Projects – Other Capital Projects Fund – to account for various financial resources received from local sales taxes, local impact fees, and other miscellaneous sources, to be used for educational capital outlay needs and debt service payments on certificates of participation.

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

- Internal Service Fund – to account for the District's individual self-insurance programs.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, cash with fiscal agent, demand deposits, and short-term, highly liquid investments with original maturities of 3 months or less. Investments classified as cash equivalents include money market mutual funds, amounts placed with the Florida Education Investment Trust Fund (FEITF), and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, amounts placed in the FEITF, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME and the FEITF, which the SBA and FEIFT, respectively, indicate are Securities and Exchange Commission Rule 2a7-like external investment pools, 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 and are reported at fair value.

Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis except that maintenance inventories are stated at weighted-average, and 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. Under the economic resources measurement focus of the government-wide financial statements, the costs of inventories are recorded as expenditures when used rather than purchased. In the fund financial statements, except for United States Department of Agriculture donated foods, the costs of inventories are recorded as expenditures when purchased rather than used, and reported purchased inventories are equally offset by a fund balance reserve.

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 expenses when consumed rather than when purchased.

4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

Description	Estimated Useful Lives
Improvements Other Than Buildings	25 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	7 years
Motor Vehicles	10 years
Property Under Capital Lease	7 years
Audio Visual Materials and Computer Software	5 - 15 years

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

5. Pensions

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

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

6. Long-Term Liabilities

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued and premiums 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 Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position and the governmental funds balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. On the statement of net position, the District reports deferred inflows of resources related to pensions, which are discussed in a subsequent note. For the governmental funds balance sheet, the District has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, unavailable revenue from the State of Florida for Capital Outlay and Debt Service. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes 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 committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2015.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. Board Policy 5.02 provides that the assigned fund balance includes amounts which are assigned for the intended use of the Board or by delegation to the Superintendent or Superintendent's designee. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

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

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

3. District Property Taxes

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

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

The Board adopted the 2014 tax levy on September 18, 2014. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Local Government Infrastructure Surtax

On November 3, 1989, the voters of Clay County (County) approved a one cent local government infrastructure surtax authorized under Section 212.055(2), Florida Statutes, until December 31, 2019. Pursuant to Section 212.055(2)(c)1, Florida Statutes, the County and its municipalities entered into an interlocal agreement with the School Board, dated June 23, 1998, wherein the parties agreed to a distribution formula for the infrastructure sales surtax proceeds. The Distribution formula provides, in part, that the District shall receive 10 percent of the County's portion of the proceeds using the statutory distribution formula provided in Section 218.62, Florida Statutes. The surtax proceeds are to be used for fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of public facilities which have a useful life expectancy of 5 or more years; any land acquisition, land improvement, design and engineering costs related thereto; and certain vehicle purchases.

5. Educational Impact Fees

Clay County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2003. This ordinance was most recently amended in September 2013 when Ordinance 2013-17 established, in part, revised fees to be collected, and May 2014 when Ordinance 2014-10 revised certain provisions related to impact fee credits for donations of land and construction of improvements or additions. The educational impact fee is collected for most new residential construction by the County and each municipality within the County based on an interlocal agreement. The fees are to be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development and are not to be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition; facility design and construction costs; furniture and equipment; and payment of principal, interest, and related costs of indebtedness necessitated by new residential development.

6. 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.

7. Compensated Absences

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

8. Proprietary Fund Operating and Nonoperating Revenues and Expenses

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

II. ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 68. The District participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As a participating employer, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the District was decreased by $124,487,575 due to the adoption of this Statement.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balances (Net Position) in Individual Nonmajor Funds. The following Internal Service Fund had a deficit net position balance at June 30, 2015:

Fund	Beginning Net Position	Change in Net Position	Ending Net Position
Internal Service	$ 809,512.82	$ (2,268,117.30)	$ (1,458,604.48)

The District's Internal Service Fund for workers' compensation, automobile liability, general liability, and property loss coverage experienced a net loss resulting in a deficit net position at June 30, 2015, as a result of decreasing premium contributions to the program because of a decline in the General Fund financial condition and an increase in the actuarially determined liability for claims payable at June 30, 2015. To address the declining financial position, the District increased the workers' compensation rates assessed to the District's governmental funds for the 2015-16 fiscal year to subsidize the Fund and help restore the Fund's net position to a favorable balance by June 30, 2016.

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.

B. Investments

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1) (2)	34 Day Average	$ 18,117,332.70
Debt Service Accounts	6 Months	48,481.46
First American Treasury Obligations Money Market Mutual Funds (1) (3)	33 Day Average	1,637,033.75
First American Prime Obligations Money Market Mutual Funds (1) (3)	42 Day Average	928,235.75
FEITF (1)	32 Day Average	484,290.84
Total Investments, Primary Government		$ 21,215,374.50

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.
(2) Includes Fiduciary Fund investments of $1,559,852.13.
(3) At June 30, 2015, investments totaling $2,565,269.50 were held under a trust agreement in connection with Certificates of Participation financing arrangements.

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 does not specifically limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates, but generally requires shorter-term investment maturities that are matched with cash flow needs to avoid selling securities prior to maturity. 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 FEITF, the First American Prime Obligations and the First American Treasury Obligations money market mutual funds are designed to maintain a $1 per share net asset value and provide immediate liquidity to meet cash flow needs.

Florida PRIME uses a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts held in qualified public depositories; direct obligations of the United States Treasury; Federal agencies and instrumentalities; any open-end or closed-end management-type investment company or registered investment trust investing in, or repurchase agreements collateralized by, obligations of the United States Government or any agency or instrumentality; and commercial paper and bankers' acceptances with quality credit ratings.

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

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

The District's investments in the First American Treasury Obligations money market mutual fund and the First American Prime Obligations money market mutual fund, are rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investor Services.

The District's investments in the FEITF are rated AAAm by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy addresses custodial credit risk in that all securities, with the exception of certificates of deposit, are held with a third-party custodian; and all securities purchased by and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution.

The District's investments in the money market mutual fund are held by the safekeeping agent in the name of the District.

C. Receivables

Capital Credits Receivable

The District participates in a nonprofit electric cooperative established under Chapter 425, Florida Statutes. In accordance with this statute, revenues in excess of operating expenses, unless otherwise determined by a vote of the membership, are distributed by the cooperative on a pro rata basis to its members. The policy of the Clay County Electric Cooperative, Inc. (Cooperative), is to credit the excess revenues to the members' accounts. Annually, the Cooperative makes payments for designated prior years' capital credits. During the 2014-15 fiscal year, the District earned capital credits of $435,216.97 and received $61,851.04 related to portions of capital credits earned from the 1987 through 2013 fiscal year. At June 30, 2015, the accumulated credits to the District's accounts were $4,172,703.36.

Due from Other Agencies

The majority of receivables are due from other agencies. These receivables and the remaining accounts receivable are considered to be fully collectible. The following is a schedule of amounts Due from Other Agencies at June 30, 2015:

Fund/Source	Amount
Major Governmental Funds:	
General Fund:	
State of Florida:	
Medicaid Administrative Claiming	$ 420,749.13
District Instructional Leadership Grant	68,859.75
Performance Adjustment Grant	22,695.00
United States Department of Defense:	
Navy Junior Reserve Officers Training Corps	72,033.81
Clay County Board of County Commissioners:	
Driver Education Safety Fund	171,973.58
Clay County Tax Collector:	
Local Property Taxes	264,224.09
Special Revenue Fund - Other:	
State of Florida:	
Cash Advance Reporting System	2,570,636.18
United States Department of Defense:	
Achievement at Military Connected Schools	188,379.80
United States Department of Education:	
Safe and Drug-Free Schools and Communities Grant	32,223.06
Capital Projects - Other Capital Projects:	
Clay County Board of County Commissioners:	
Local Impact Fees	229,082.76
City of Green Cove Springs:	
Local Impact Fees	97,137.56
State of Florida:	
Local Sales Surtax	209,778.14
Gas Tax Refunds	18,641.01
Nonmajor - Other Governmental Funds:	
State of Florida:	
Reimbursement for School Meals	70,931.68
Cash Advance Reporting System	51,044.25
Motor Vehicle License Tax	517,852.78
Public Education Capital Outlay	228,010.93
Clay County Tax Collector:	
Local Property Taxes	68,000.00
Total	$ 5,302,253.51

D. 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	$ 29,929,713.81	$ -	$ 83,275.00	$ 29,846,438.81
Construction in Progress	1,575,578.22	4,267,637.43	4,291,671.09	1,551,544.56
Total Capital Assets Not Being Depreciated	31,505,292.03	4,267,637.43	4,374,946.09	31,397,983.37
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	25,372,430.72	433,257.38	-	25,805,688.10
Buildings and Fixed Equipment	529,867,622.97	3,858,413.71	-	533,726,036.68
Furniture, Fixtures, and Equipment	30,382,806.44	1,145,084.08	3,701,352.40	27,826,538.12
Motor Vehicles	24,525,475.62	43,384.13	118,955.20	24,449,904.55
Property Under Capital Lease (1)	498,842.90	-	481,289.25	17,553.65
Audio Visual Materials and Computer Software	3,305,037.98	499,842.85	443,991.25	3,360,889.58
Total Capital Assets Being Depreciated	613,952,216.63	5,979,982.15	4,745,588.10	615,186,610.68
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	17,214,485.36	1,014,897.25	-	18,229,382.61
Buildings and Fixed Equipment	136,199,224.07	10,731,247.38	-	146,930,471.45
Furniture, Fixtures, and Equipment	22,472,802.06	2,431,809.00	3,701,352.40	21,203,258.66
Motor Vehicles	13,359,561.18	2,175,621.93	118,955.20	15,416,227.91
Property Under Capital Lease (1)	483,795.31	2,509.26	481,289.25	5,015.32
Audio Visual Materials and Computer Software	2,274,348.49	644,688.34	443,991.25	2,475,045.58
Total Accumulated Depreciation	192,004,216.47	17,000,773.16	4,745,588.10	204,259,401.53
Total Capital Assets Being Depreciated, Net	421,948,000.16	(11,020,791.01)	-	410,927,209.15
Governmental Activities Capital Assets, Net	$ 453,453,292.19	$ (6,753,153.58)	$ 4,374,946.09	$ 442,325,192.52

Note (1): Property under capital lease was paid off in a prior fiscal year and the asset and related accumulated depreciation were reclassified as audio visual materials and computer software during the 2014-15 fiscal year. As a result, capital asset additions exceed fixed capital outlay expenditures on the statement of revenues, expenditures, and changes in fund balances by $481,289.25, and additions to accumulated depreciation exceed depreciation expense on the statement of activities by $481,289.25.

The class of property under capital lease is presented in Note IV.I.1.

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	$ 2,175,621.93
Unallocated	14,343,861.98
Total Depreciation Expense - Governmental Activities	$ 16,519,483.91

E. Retirement Plans

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

General Information about the FRS

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

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

The District's FRS and HIS pension expense totaled $6,447,007 for the fiscal year ended June 30, 2015.

FRS Pension Plan

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

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

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

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

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

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

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

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

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

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

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

The District's contributions to the Plan totaled $11,169,189 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a liability of $28,494,839 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.467015927 percent, which was a decrease of 0.007186795 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized Plan pension expense of $2,496,505. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 1,763,346
Change of assumptions	4,934,832	-
Net difference between projected and actual earnings on FRS pension plan investments	-	47,534,124
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	-	1,040,791
District FRS contributions subsequent to the measurement date	11,169,189	-
Total	$ 16,104,021	$ 50,338,261

The deferred outflows of resources related to pensions, totaling $11,169,189, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30		**Amount**
2016	$	(11,481,513)
2017		(11,481,513)
2018		(11,481,513)
2019		(11,481,513)
2020		402,018
Thereafter		120,605
Total	$	(45,403,429)

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

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

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

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

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

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

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 121,876,213	$ 28,494,839	$ (49,180,645)

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

Payables to the Pension Plan. At June 30, 2015, the District reported a payable of $1,671,231 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2015.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

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

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

The District's contributions to the HIS Plan totaled $2,351,792 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a net pension liability of $58,466,289 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.625291587 percent, which was a decrease of 0.009050871 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized HIS Plan pension expense of $3,950,502. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 2,080,463	$ -
Net difference between projected and actual earnings on HIS pension plan investments	28,065	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	-	678,553
District contributions subsequent to the measurement date	2,351,792	-
Total	$ 4,460,320	$ 678,553

The deferred outflows of resources, totaling $2,351,792, was related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2016	$ 233,131
2017	233,131
2018	233,131
2019	233,131
2020	226,115
Thereafter	271,336
Total	$ 1,429,975

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
District's proportionate share of the net pension liability	$ 66,500,669	$ 58,466,289	$ 51,759,881

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

Payables to the Pension Plan. At June 30, 2015, the District reported a payable of $351,043 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2015.

2. FRS – Defined Contribution Pension Plan

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

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

Class	Percent of Gross Compensation
FRS, Regular	6.30
FRS, Elected County Officers	11.34

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

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

The District's Investment Plan pension expense totaled $2,147,155.99 for the fiscal year ended June 30, 2015.

Payables to the FRS Investment Plan. At June 30, 2015, the District reported a payable of $337,302 for the outstanding amount of contributions to the Investment Plan required for the fiscal year ended June 30, 2015.

F. Other Postemployment Benefit Obligations

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

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 126 retirees received other postemployment benefits. The District provided required contributions of $1,110,140 toward the annual OPEB cost, net of retiree contributions totaling $951,385, which represents 0.7 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 basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for 1 year)	$ 918,041
Amortization of Unfunded Actuarial Accrued Liability	299,339
Interest on Normal Cost and Amortization	48,695
Annual Required Contribution	1,266,075
Interest on Net OPEB Obligation	130,307
Adjustment to Annual Required Contribution	(116,348)
Annual OPEB Cost (Expense)	1,280,034
Contribution Toward the OPEB Cost	(1,110,140)
Increase in Net OPEB Obligation	169,894
Net OPEB Obligation, Beginning of Year	3,257,679
Net OPEB Obligation, End of Year	$ 3,427,573

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2015, and the 2 preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012-13	$ 1,688,054	35.5%	$ 2,034,065
2013-14	1,799,077	26.8%	3,257,679
2014-15	1,280,034	86.7%	3,427,573

Funded Status and Funding Progress. As of July 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was $7,031,174, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $7,031,174 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $131,371,425, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.4 percent.

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

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

The District's OPEB actuarial valuation as of June 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2015, and to estimate the District's 2014-15 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.0 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 3.5 percent per year, and an annual healthcare cost trend rate of 8.0 percent initially for the 2014-15 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5.0 percent for the fiscal year ending June 30, 2024. The investment rate of return and payroll growth rate include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2015, was 22 years.

G. Significant Commitments

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

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

Major Funds				
General	Special Revenue - Other	Capital Projects - Other Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
$ 337,952.18	$ 926,851.80	$ 2,673.83	$ 3,989,043.72	$ 5,256,521.53

H. 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. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District established a Risk Management Internal Service Fund to account for and finance its uninsured risk of loss related workers' compensation, automobile liability, general liability claims and property loss coverages. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage of when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

The District's liability is limited to $100,000 per claim and $200,000 per occurrence for automobile liability, general liability and property loss coverages. The District's liability for workers' compensation is limited from $125,000 to $325,000 per occurrence, depending on the year of occurrence.

A liability in the amount of $1,465,687 was actuarially determine to cover estimated incurred, but not reported, insurance claims payable at June 30, 2015.

The following schedule represents the changes in claims liability for the past 2 fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2013-14	$ 1,372,408.00	$ 617,462.49	$ (712,474.49)	$ 1,277,396.00
2014-15	1,277,396.00	858,680.25	(670,389.25)	1,465,687.00

The District's health and hospitalization coverage and other coverages deemed necessary by the Board were provided through purchased commercial insurance with minimum deductibles for each line of coverage.

I. Long-Term Liabilities

1. Obligation Under Capital Lease

Property being acquired under capital lease arrangement consists of a multi-function printer with an asset value of $17,553.65. Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2016	$ 6,056.40	$ 5,905.29	$ 151.11
2017	3,532.90	3,506.55	26.35
Total Minimum Lease Payments	$ 9,589.30	$ 9,411.84	$ 177.46

The interest rate is 2.25 percent.

2. Certificates of Participation

Certificates of participation at June 30, 2015, are as follows:

Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity	Original Amount
2005B, Refunding	$ 11,500,000	4.10 - 5.00	2025	$ 18,545,000
2012, Refunding	23,640,000	3.00 - 5.00	2028	24,930,000
2014, Refunding	16,172,000	2.79	2027	17,540,000
Total Certificates of Participation	$ 51,312,000			$ 61,015,000

The District entered into master financing arrangement on May 15, 1997, which was characterized as lease-purchase agreement, with the Clay 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 ground leases on District property 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 lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for the remaining term of the ground leases.

The District properties included in the various ground leases under these arrangements include:

Certificates	Description of Properties
Series 2005B, Refunding	Construction of Oakleaf Junior High School
Series 2012, Refunding	Construction of Lake Asbury Junior High School and Oakleaf High School
Series 2014, Refunding	Acquistion of land, conversion of the Ridgeview Junior High School to a senior high school, and construction of Fleming Island High School

The lease payments are payable by the District semiannually on July 1 and January 1, and must be remitted by the District as of the 15th day of the month preceding the payment dates.

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
2016	$ 5,272,503.80	$ 3,309,000.00	$ 1,963,503.80
2017	5,269,618.70	3,430,000.00	1,839,618.70
2018	5,267,884.70	3,544,000.00	1,723,884.70
2019	5,265,233.60	3,699,000.00	1,566,233.60
2020	5,265,174.50	3,855,000.00	1,410,174.50
2021-2025	25,989,253.10	21,534,000.00	4,455,253.10
2026-2028	12,617,363.00	11,941,000.00	676,363.00
Total Minimum Lease Payments	$ 64,947,031.40	$ 51,312,000.00	$ 13,635,031.40

3. Bonds Payable

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2009A, Refunding	$ 150,000.00	5.00	2019
Series 2011A, Refunding	350,000.00	3.00 - 5.00	2023
Series 2014B, Refunding	1,256,000.00	2.00 - 5.00	2020
District Revenue Bonds:			
Series 2010, Refunding	2,520,000.00	3.05 - 5.00	2032
Total Bonds Payable	$ 4,276,000.00		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

State School Bonds

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

District Revenue Bonds

These bonds are authorized by Chapter 65-1383, Laws of Florida, and Chapter 70-631, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Clay County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes).

The annual distribution is remitted by the Florida Department of Financial Services to the District and the Board has established a sinking fund as required by the bond resolution. These bonds were issued to refund the District Revenue Bonds, Series 1995, and to finance costs of various capital improvements in the District.

The District has pledged a total of $3,701,536.28 of future pari-mutuel tax revenues in connection with the District Revenue Bonds Series 2010A, described above. During the 2014-15 fiscal year, the District recognized sales tax revenues totaling $223,250 and expended $218,987.50 (98 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on May 1, 2032. Approximately 98 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Fiscal Year Ending June 30	**Total**	**Principal**	**Interest**
State School Bonds:			
2016	$ 928,140.22	$ 838,000.00	$ 90,140.22
2017	462,210.00	419,000.00	43,210.00
2018	205,260.00	183,000.00	22,260.00
2019	106,110.00	93,000.00	13,110.00
2020	66,460.00	58,000.00	8,460.00
2021-2023	176,200.00	165,000.00	11,200.00
Total State School Bonds	1,944,380.22	1,756,000.00	188,380.22
District Revenue Bonds:			
2016	216,257.50	105,000.00	111,257.50
2017	218,055.00	110,000.00	108,055.00
2018	219,480.00	115,000.00	104,480.00
2019	220,455.00	120,000.00	100,455.00
2020	215,955.00	120,000.00	95,955.00
2021-2025	1,085,621.28	685,000.00	400,621.28
2026-2030	1,090,212.50	860,000.00	230,212.50
2031-2032	435,500.00	405,000.00	30,500.00
Total District Revenue Bonds	3,701,536.28	2,520,000.00	1,181,536.28
Total	$ 5,645,916.50	$ 4,276,000.00	$ 1,369,916.50

4. Defeased Debt

On December 2, 2014, the SBE issued Capital Outlay Refunding Bonds, Series 2014B. The refunding bonds were issued, in part, to refund callable portions of the SBE Capital Outlay Bonds, Series 2005A and Series 2005B, maturing on or after January 1, 2016. The District's portion of the refunding SBE Capital Outlay Refunding Bonds, Series 2014B, was $1,371,609.31 (after deduction of $2,155.32 for the District's pro rata share of underwriting fees, insurance, and other issuance costs). The net proceeds were used to call and redeem the Series 2005A and

Series 2005B bonds on January 1, 2015, and reduced the District's total debt service payments by $78,569.78.

On December 18, 2014, the Leasing Corporation issued $17,540,000 in Refunding Certificates of Participation, Series 2014, with an average interest rate of 2.79 percent, to refund the District's Certificates of Participation, Series 2004, and advance-refund the Certificates of Participation, Series 2005A. The refunding certificates were issued to refund the $3,095,000 principal amount of the Series 2004 certificates and to advance-refund $14,025,000 of the Series 2005A certificates that mature on or after July 1, 2015. The net proceeds of $17,777,024.40 (after payment of $120,748.30 in issuance costs) were placed in an irrevocable trust to redeem the Series 2004 certificates on January 1, 2015, and redeem Series 2005A certificates on July 1, 2015. As a result, $17,120,000 of the Series 2004 and Series 2005A certificates liability has been removed from the government-wide financial statements.

The Refunding Certificates of Participation, Series 2014, were issued to reduce the total debt service payments over the next 16 years by $1,824,546.43 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,535,928.77.

5. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Obligation Under Capital Lease	$ 15,185.86	$ -	$ 5,774.02	$ 9,411.84	$ 5,905.29
Bonds Payable	5,250,000.00	1,256,000.00	2,230,000.00	4,276,000.00	943,000.00
Certificates of Participation Payable	54,035,000.00	17,540,000.00	20,263,000.00	51,312,000.00	3,309,000.00
Compensated Absences Payable	21,666,473.33	10,510,936.86	12,141,783.67	20,035,626.52	12,141,783.67
Estimated Insurance Claims Payable	1,277,396.00	1,222,607.80	1,034,316.80	1,465,687.00	546,701.25
Other Postemployment Benefits Payable	3,257,679.00	1,280,034.00	1,110,140.00	3,427,573.00	-
Net Pension Liability (1)	136,859,245.00	13,490,365.00	63,388,482.00	86,961,128.00	1,962,730.31
Total Governmental Activities	$ 222,360,979.19	$ 45,299,943.66	$ 100,173,496.49	$ 167,487,426.36	$ 18,909,120.52

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

For the governmental activities, compensated absences, pension liabilities, and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary fund, as discussed in Note I.G.8.

J. Fund Balance Reporting

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

- **Nonspendable Fund Balance**. Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

- **Restricted Fund Balance**. Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance**. The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

K. Interfund Receivables and Payables

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

	Interfund	
Funds	**Receivables**	**Payables**
Major:		
General	$ 3,305,785.44	$ -
Special Revenue:		
Other	-	2,875,093.95
Debt Service:		
Other Debt Service	6,861.98	595.36
Capital Projects:		
Other Capital Projects	-	132,720.79
Nonmajor Governmental	80.57	144,599.89
Internal Service	-	101,000.00
Fiduciary	-	58,718.00
Total	$ 3,312,727.99	$ 3,312,727.99

The outstanding interfund balances result mainly from expenditures and reimbursement timing differences being adjusted between funds. The interfund amounts represent temporary loans from one fund to another and are expected to be repaid within 1 year.

L. Revenues

1. Schedule of State Revenue Sources

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

Source	Amount
Florida Education Finance Program	$ 145,132,632.00
Categorical Educational Program - Class Size Reduction	37,433,345.00
School Recognition	1,980,516.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,362,773.52
Workforce Development Program	847,812.00
Department of Military Affairs	750,000.00
Gross Receipts Tax (Public Education Capital Outlay)	716,917.00
Voluntary Prekindergarten Program	511,518.90
Food Service Supplement	131,764.00
Discretionary Lottery Funds	126,534.00
Department of Children and Families	125,579.85
Miscellaneous	621,078.69
Total	$ 189,740,470.96

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

2. Property Taxes

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

	Millages	Taxes Levied
General Fund		
Nonvoted School Tax:		
Required Local Effort	4.968	$ 47,506,338
Prior-Period Funding Adjustment	0.006	57,374
Basic Discretionary Local Effort	0.748	7,152,726
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.500	14,343,701
Total	7.222	$ 69,060,139

M. Interfund Transfers

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

	Interfund	
Funds	**Transfers In**	**Transfers Out**
Major:		
General	$ 6,860,208.26	$ -
Debt Service:		
Other Debt Service	5,354,572.78	-
Capital Projects:		
Other Capital Projects	-	2,380,271.26
Nonmajor Governmental	-	9,834,509.78
Total	$ 12,214,781.04	$ 12,214,781.04

Interfund transfers represent permanent transfers of moneys between funds. The transfers out of the Capital Projects – Other Capital Projects Fund were to provide for debt service payments in the Debt Service – Other Debt Service Fund. The transfers out of the nonmajor governmental funds were to provide for debt service payments in the Debt Service – Other Debt Service Fund, and to fund equipment purchases, property and casualty insurance premiums, and certain facilities and maintenance expenditures of the District's General Fund.

THIS PAGE INTENTIONALLY LEFT BLANK.

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 855,000.00	$ 855,000.00	$ 785,615.91	$ (69,384.09)
Federal Through State and Local	1,727,660.55	1,735,815.84	1,524,319.75	(211,496.09)
State	188,742,952.00	187,360,240.19	187,246,843.06	(113,397.13)
Local:				
Property Taxes	53,931,666.00	53,931,666.00	52,785,571.96	(1,146,094.04)
Miscellaneous	2,384,984.18	2,554,064.36	2,734,623.44	180,559.08
Total Local Revenues	56,316,650.18	56,485,730.36	55,520,195.40	(965,534.96)
Total Revenues	247,642,262.73	246,436,786.39	245,076,974.12	(1,359,812.27)
Expenditures				
Current - Education:				
Instruction	167,132,973.66	169,617,138.12	167,163,724.11	2,453,414.01
Student Personnel Services	13,257,208.29	13,862,942.64	13,814,379.89	48,562.75
Instructional Media Services	4,124,035.90	3,899,636.89	3,891,092.90	8,543.99
Instruction and Curriculum Development Services	4,316,623.45	4,359,402.26	4,167,505.78	191,896.48
Instructional Staff Training Services	2,388,909.22	2,403,110.20	2,320,852.14	82,258.06
Instructional-Related Technology	2,974,454.63	3,241,834.44	3,176,832.52	65,001.92
Board	1,041,389.93	924,174.57	903,193.42	20,981.15
General Administration	910,097.24	805,643.88	805,643.88	-
School Administration	13,886,048.93	15,039,182.46	14,972,015.34	67,167.12
Facilities Acquisition and Construction	1,292,295.82	1,147,235.94	986,294.93	160,941.01
Fiscal Services	866,408.50	750,026.66	750,026.66	-
Food Services	1,733.99	88,768.54	86,679.89	2,088.65
Central Services	3,564,515.70	3,312,353.47	3,256,563.72	55,789.75
Student Transportation Services	10,444,713.45	10,633,377.27	10,448,803.24	184,574.03
Operation of Plant	18,070,864.09	18,167,351.04	18,166,824.56	526.48
Maintenance of Plant	5,296,415.34	5,083,149.00	5,032,438.29	50,710.71
Administrative Technology Services	1,555,858.88	1,450,338.71	1,440,280.29	10,058.42
Community Services	544,792.28	411,110.50	257,296.27	153,814.23
Fixed Capital Outlay:				
Facilities Acquisition and Construction	343,179.48	354,481.90	313,111.14	41,370.76
Other Capital Outlay	1,237,979.66	830,457.88	783,086.13	47,371.75
Debt Service:				
Principal	5,774.02	5,774.02	5,774.02	-
Interest and Fiscal Charges	282.38	282.38	282.38	-
Total Expenditures	253,256,554.84	256,387,772.77	252,742,701.50	3,645,071.27
Excess (Deficiency) of Revenues Over Expenditures	(5,614,292.11)	(9,950,986.38)	(7,665,727.38)	2,285,259.00
Other Financing Sources				
Transfers In	5,776,128.02	5,776,128.02	6,860,208.26	1,084,080.24
Sale of Capital Assets	1,935,000.00	183,872.00	199,932.69	16,060.69
Loss Recoveries	40,000.00	40,000.00	10,322.51	(29,677.49)
Total Other Financing Sources	7,751,128.02	6,000,000.02	7,070,463.46	1,070,463.44
Net Change in Fund Balances	2,136,835.91	(3,950,986.36)	(595,263.92)	3,355,722.44
Fund Balances, Beginning	7,337,568.03	7,337,568.03	7,337,568.03	-
Decrease in Nonspendable Inventory	-	-	(157,761.43)	(157,761.43)
Fund Balances, Ending	$ 9,474,403.94	$ 3,386,581.67	$ 6,584,542.68	$ 3,197,961.01

Special Revenue - Other Fund

Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 3,255,088.86	$ 3,587,691.86	$ 1,175,160.83	$ (2,412,531.03)
15,890,860.58	16,048,668.35	13,873,088.29	(2,175,580.06)
-	-	-	-
-	-	-	-
-	-	6,062.57	6,062.57
-	-	6,062.57	6,062.57
19,145,949.44	19,636,360.21	15,054,311.69	(4,582,048.52)
10,490,496.83	10,875,633.72	9,642,578.70	1,233,055.02
1,656,452.81	2,208,964.27	1,521,476.87	687,487.40
40,511.02	30,084.09	28,834.63	1,249.46
1,410,295.64	1,405,905.30	1,260,981.00	144,924.30
3,799,533.93	3,275,928.25	1,821,070.51	1,454,857.74
2,399.00	2,399.00	2,399.00	-
-	-	-	-
518,074.53	536,258.19	451,728.09	84,530.10
-	6,062.59	6,062.59	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
97,180.06	76,202.64	51,553.16	24,649.48
-	-	-	-
-	-	-	-
-	-	-	-
25,000.00	25,000.00	-	25,000.00
-	-	-	-
1,106,005.62	622,281.75	267,627.14	354,654.61
-	-	-	-
-	-	-	-
19,145,949.44	19,064,719.80	15,054,311.69	4,010,408.11
-	571,640.41	-	(571,640.41)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	571,640.41	-	(571,640.41)
-	-	-	-
-	-	-	-
$ 0.00	$ 571,640.41	$ 0.00	$ (571,640.41)

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2012	$ -	$ 11,977,383	$ 11,977,383	0%	$ 127,623,503	9.4%
July 1, 2013	-	13,065,110	13,065,110	0%	129,724,330	10.1%
July 1, 2014	-	7,031,174	7,031,174	0%	131,371,425	5.4%

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

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

	2014	2013
District's proportion of the FRS net pension liability	0.467015927%	0.474202722%
District's proportionate share of the FRS net pension liability	$ 28,494,839	$ 81,631,394
District's covered-employee payroll	157,292,662	157,213,956
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	18.12%	51.92%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

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

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

	2015	2014
Contractually required FRS contribution	$ 11,169,189	$ 10,229,631
FRS contributions in relation to the contractually required contribution	11,169,189	10,229,631
FRS contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 157,901,173	$ 157,292,662
FRS contributions as a percentage of covered-employee payroll	7.07%	6.50%

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

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

	2014	2013
District's proportion of the HIS net pension liability	0.625291587%	0.634342458%
District's proportionate share of the HIS net pension liability	$ 58,466,289	$ 55,227,851
District's covered-employee payroll	186,136,123	184,215,903
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.41%	29.98%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

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

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

	2015	2014
Contractually required HIS contribution	$ 2,351,792	$ 2,142,039
HIS contributions in relation to the contractually required contribution	2,351,792	2,142,039
HIS contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 186,699,223	$ 186,136,123
HIS contributions as a percentage of covered-employee payroll	1.26%	1.15%

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

1. Budgetary Basis of Accounting

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

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

2. Schedule of Funding Progress – Other Postemployment Benefits Plan

The July 1, 2014, unfunded actuarial accrued liability of $7,031,174 was significantly lower than the July 1, 2013, liability of $13,065,110 as a result of changes in cost and liability as discussed below:

- The number of active and inactive participants decreased.
- Future medical per capita claims and trend have been changed to reflect current conditions.
- Retirement and termination decrements were updated based on the FRS assumption study.
- The mortality assumption was changed from a generational table to a mortality table used by the FRS.

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

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

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

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

THIS PAGE INTENTIONALLY LEFT BLANK

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass -Through Grantor Number	Amount of Expenditures (1)	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	14002	$ 1,586,899.61	$ -
National School Lunch Program	10.555 (2)	14001, 14003	7,998,512.86	-
Summer Food Service Program for Children	10.559	14006, 14007	105,845.55	-
Total United States Department of Agriculture			9,691,258.02	-
United States Department of Labor:				
Indirect:				
First Coast Workforce Development, Inc.:				
WIA/WOIA Youth Activities	17.259	FCWD 2014-05-1, FCWD 2015-05-1	113,420.34	-
United States Department of Education:				
Direct:				
Impact Aid	84.041(3)	N/A	505,694.29	-
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	48,327.48	-
Total Direct			554,021.77	-
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027(4)	262, 263	7,398,089.47	-
Special Education - Preschool Grants	84.173	267	168,990.46	-
Duval County District School Board:				
Special Education - Grants to States	84.027(4)	N/A	3,040.75	-
Putnam County District School Board:				
Special Education - Grants to States	84.027(4)	N/A	2,389.86	-
Total Special Education Cluster			7,572,510.54	-
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191,193	123,472.00	-
Title I Grants to Local Educational Agencies	84.010	212,226	4,663,701.20	-
Career and Technical Education - Basic Grants to States	84.048	161	285,616.29	-
Education for Homeless Children and Youth	84.196	127	68,556.14	-
Charter Schools	84.282	298	175,000.00	175,000.00
English Language Acquisition Grants	84.365	102	144,714.25	-
Improving Teacher Quality State Grants	84.367	224	594,217.88	-
ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive grants, Recovery Act	84.395(5)	RA111, RG311	95,281.99	-
Washington County District School Board:				
ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395(5)	7521405, 7421403	1,226.41	-
Total Indirect			13,724,296.70	175,000.00
Total United States Department of Education			14,278,318.47	175,000.00
United States Department of Health and Human Services:				
Indirect:				
First Coast Workforce Development, Inc.:				
Temporary Assistance for Needy Families	93.556	FCWD 2014-05-1, FCWD 2015-05-1	113,420.34	-

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 Defense:				
Direct:				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	N/A	$ 1,126,833.35	$ -
Navy Junior Reserve Officers Training Corps	None	N/A	331,331.32	-
Total United States Department of Defense			1,458,164.67	-
Total Expenditures of Federal Awards			$ 25,654,581.84	$ 175,000.00

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 $1,065,244.50 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Impact Aid. Expenditures include $82,047.46 for award number SO41B-2012-1240 and $423,646.83 for award number SO41B-2015-1240.

(4) Special Education Cluster. Expenditures for CFDA No. 84.027 total $7,403,520.08.

(5) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Expenditures for CFDA No. 84.395 total $96,508.40.

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

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

Phone: (850) 412-2722
Fax: (850) 488-6975

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Clay County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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

District's Response to Findings

District's response to the findings identified in our audit is described in the accompanying **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 24, 2016

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

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

Phone: (850) 412-2722
Fax: (850) 488-6975

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 REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for Each Major Federal Program

We have audited the Clay County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2015. 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**.

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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding Nos. 2015-001 and 2015-002. Our opinion on each major Federal program is not modified with respect to these matters.

District's response to the noncompliance findings identified in our audit is included as **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 a 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 a 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, we identified certain deficiencies in internal control over compliance as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding Nos. 2015-001 and 2015-002 that we consider to be significant deficiencies.

District's response to the internal control over compliance findings identified in our audit is included as **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 24, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553,10.555, and 10.559	Child Nutrition Cluster
84.027 and 84.173	Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	$769,637
Auditee qualified as low-risk auditee?	No

ADDITIONAL MATTER

Finding 1: Financial Condition

In governmental funds, nonspendable, restricted, and committed accounts are used to indicate the portion of fund balance that is limited for specific purposes and not available for general appropriation by the Board, while the total remaining fund balance (i.e. assigned and unassigned fund balance accounts) is designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions of fund balance represent the amounts that may be used with the most flexibility for emergencies and unforeseen situations.

State Law[1] requires the District to maintain a General Fund ending fund balance that is sufficient to address normal contingencies. If at any time the portion of the General Fund's ending fund balance classified as assigned and unassigned fund balance in the District's approved operating budget as a percent of General Fund total revenue (i.e., financial condition ratio) is projected to fall below 3 percent during the fiscal year, the Superintendent must provide written notification to the Board and the Florida Department of Education (FDOE). Further, if at any time the financial condition ratio is projected to fall below 2 percent, the Board should have a reasonable plan to avoid a financial emergency, or the FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency. Also, State Law[2] provides that the FDOE may determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition.

During the 2014-15 fiscal year, the District experienced a decline in its financial condition as the General Fund total assigned and unassigned fund balance decreased by $299,821.97, or 5.6 percent, from $5,389,495.40 to $5,089,673.43. In a letter dated September 21, 2015, the Superintendent notified the Board and the FDOE that factors contributing to the decline included a reduction in required local effort tax revenue, a higher than projected funding of McKay scholarships, the opening of a new charter school for which funding was not included in prior financial position projections, and terminal pay for accumulated leave balances in amounts greater than budgeted. A summary of the General Fund financial condition ratios for the past 3 fiscal years is shown in Table 1.

Table 1
Financial Condition Ratios

For the Fiscal Years Ended June 30, 2013, 2014, and 2015

Fiscal Year Ended June 30	Total Assigned and Unassigned Fund Balance (A)	Total General Fund Revenues (B)	Financial Condition Ratio (A)/(B)
2013	$4,929,362.92	$231,992,423.95	2.12%
2014	$5,389,495.40	$240,724,162.88	2.24%
2015	$5,089,673.43	$245,076,974.12	2.08%

[1] Section 1011.051, Florida Statutes.

[2] Section 218.503(3), Florida Statutes.

As noted in Table 1, the financial condition ratio has been relatively constant, slightly above 2 percent, for the last 3 fiscal years. However, as such, the District has fewer resources available for emergencies and unforeseen situations than other school districts of comparable size.

In the letter dated September 21, 2015, the Superintendent indicated that, if projected increases in student enrollment are realized, the General Fund total assigned and unassigned fund balance may increase to 3 percent of General Fund revenues by June 30, 2016. However, uses of the General Fund assigned and unassigned fund balance for increased workers' compensation rates necessary to subsidize the Internal Service Fund, as discussed in Finding 2, and for the restoration of questioned costs totaling $238,040.89 to various Federal awards programs, as discussed in Federal Awards Finding No. 2015-002, may also impact the Fund's financial condition ratio at June 30, 2016.

The District's 2015-16 fiscal year approved budget projected a General Fund total fund balance (assigned and unassigned) of $6,033,754.40, with a 2.35 percent financial condition ratio, at June 30, 2016. Failure to improve the District's financial condition could culminate in the District's inability to meet current fiscal obligations. Similar findings were noted in the District's financial audit reports for the 2012-13 and 2013-14 fiscal years.

Recommendation: The Board and the Superintendent should continue efforts to closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

Finding 2: Net Position Deficit - Internal Service Fund

The District's self-insurance program provides workers' compensation, automobile liability, general liability, and property loss coverage on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claims amounts above the stated amount on an individual claims basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the agreed-upon limits. To administer the self-insurance program, the District contracted with an insurance administrator to process, investigate, and pay claims. The District accounted for the self-insurance program transactions in an Internal Service Fund.

During the 2014-15 fiscal year, the District's Internal Service Fund net position declined $2,268,117.30 from a positive balance of $809,512.82 to a deficit balance of $1,458,604.48. A summary of the unrestricted net position balance for the District's Internal Service Fund for the past 3 fiscal years is shown in Table 2.

Table 2
Internal Service Fund Unrestricted Net Position
For the Fiscal Years Ended June 30, 2013, 2014, and 2015

Fiscal Year Ended June 30	Unrestricted Net Position Positive/(Deficit)
2013	$ 2,722,500.58
2014	$ 809,512.82
2015	$(1,458,604.48)

Failure to reverse the decline of the financial position of the District's Internal Service Fund could result in the District having insufficient resources available to meet fiscal demands of the self-insurance program.

District personnel indicated that the decline in the unrestricted net position balance of the Internal Service Fund was caused, in part, by the District decreasing premium contributions to the program because of the decline in the General Fund financial condition, as discussed in Finding 1, and an increase in the actuarially determined liability for claims payable at June 30, 2015. To address the declining financial position of the Internal Service Fund, District personnel indicated that the workers' compensation rates assessed to the District's governmental funds were increased for the 2015-16 fiscal year to subsidize the Fund and help restore the Fund's net position to a favorable balance at June 30, 2016.

Recommendation: The Board should develop a formal plan for monitoring the financial position of the Internal Service Fund and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the self-insurance program.

Finding 3: Anti-Fraud Policies and Procedures

Appropriate policies and procedures for communicating and reporting known or suspected fraud are essential to aid in the mitigation, detection, and prevention of fraud. Board policy[3] provides for individuals to communicate and report known or suspected fraud to their supervisor or, if the circumstances warrant, directly to the Superintendent and defines and provides examples of actions constituting fraud. Board policy[4] also provides the disciplinary actions to be taken if an employee has been found to have committed or concealed fraud and indicates the investigation shall remain confidential until completed. While Board anti-fraud policies and procedures have many positive features, the policies and procedures did not include incident reporting procedures that would allow individuals to anonymously report policy violations and known or suspected fraud or provide an appropriate process for communicating and reporting known or suspected fraud related to the actions of District management.

Anti-fraud policies and procedures that allow for anonymity encourage persons to report policy violations and known or suspected fraud. In addition, an established process for communicating and reporting directly to the Board and District legal counsel any instances of known or suspected fraud related to the actions of District management promotes timely and appropriate actions to investigate the reported

[3] Board Policy No. 2.35 Anti-Fraud.

[4] Board Policy No. 2.17(A)(4) Discipline.

instances. In response to our inquiries, District personnel indicated that the anti-fraud policy would be amended to include anonymous reporting for known or suspected fraud.

Recommendation: The District should enhance policies and procedures for reporting known or suspected fraud to allow individuals to anonymously report policy violations and known or suspected fraud. The District should also establish a process requiring any instances of known or suspected fraud related to the actions of District management be communicated and reported to the Board and District legal counsel.

Finding 4: Background Screenings

State law[5] requires that each person serving in an instructional capacity undergo a background screening, including personnel providing direct instruction to students through a virtual environment or through a blended virtual and physical environment. State law[6] also requires personnel who are hired or contracted to fill positions in any charter school and members of the governing board of any charter school to undergo a background screening by filing a complete set of fingerprints with the district school board for the school district in which the charter school is located. In addition, State law[7] provides that instructional and noninstructional contractors who are permitted access on school grounds when students are present or who have direct contact with students must undergo a level 2 background screening[8] at least once every 5 years. To promote compliance with the statutory background screening requirements, District procedures require employees and contractor workers who have access to school grounds to undergo required background screenings.

During the 2014-15 fiscal year, the District employed 2,898 instructional personnel and 1,762 noninstructional personnel. Our inquiries of District personnel and review of District records in April 2015, disclosed that District personnel did not routinely update and maintain the background screening information in the District's Human Resource (HR) computer system, used to monitor background screenings, to ensure that employees' required 5-year background screenings were timely performed.

Our review of an April 2015 background screening report from the District's HR computer system indicated that 762 District employees had not undergone a background screening in the previous 5 years. Subsequent to our initial review and inquiries, District personnel began updating the background screening information and, as of November 2015, District records indicated that background screenings performed for 61 employees from April to August 2015 were performed 4 months to 6 years late. We also noted that, as of November 1, 2015, the employee background screenings that still had not been performed were as many as 13 years late. District personnel indicated that, to improve background screening procedures, reports were being generated from the HR computer system several times during

[5] Sections 1012.32 and 1002.45(2)(a)3., Florida Statutes.

[6] Section 1012.32(1)(b), Florida Statutes.

[7] Section 1012.468(1)(a)1., Florida Statutes.

[8] A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement (FDLE) and national criminal history records checks through the Federal Bureau of Investigation (FBI) and may include local criminal records checks through local law enforcement agencies.

the year to check for missing or inaccurate data, and that one employee would be assigned responsibility for monitoring and updating background screening records in the spring of 2016.

Also, during the 2014-15 fiscal year, the District sponsored two charter schools. Our review of the District's background screening procedures for the charter schools disclosed that the District did not require charter school personnel or members of the charter school governing board to file a complete set of fingerprints or undergo a level 2 background screening. One of the charter schools provided the District with documentation to evidence that a local law enforcement agency performed level 1 background screenings[9] of charter school employees; however, these background screenings did not include fingerprinting or national criminal history record checks through the FBI, which are required for level 2 background screenings. In response to our inquiries, District personnel indicated that a former District supervisor had advised the charter school to conduct background screenings instead of processing screenings through the District. Subsequent to our inquiries, level 2 background screenings were conducted during the 2015-16 fiscal year for the charter school employees and members of the charter school governing board were advised that they needed to undergo level 2 background screenings. District personnel also indicated that the employees of the other charter school underwent background checks through other Florida school districts and District personnel began reviewing the background screening results during the 2015-16 fiscal year.

Absent effective controls to ensure that required background screenings are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should take immediate action to identify employees who have not obtained the required background screenings, ensure the screenings are promptly obtained and evaluated, and make personnel decisions, as necessary, based on evaluations of the screenings. In the future, the District should ensure that required background screenings are timely performed for District employees, charter school employees, and members of the charter schools' governing boards.

Finding 5: Compensation and Salary Schedules

State law[10] requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. State law[11] also provides that, for instructional personnel, the Board must provide differentiated pay based on District-determined factors including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Such a documented

[9] A level 1 background screening includes employment history checks and Statewide criminal correspondence checks through the FDLE, a check of the national sex offender public Web site, and may include local criminal records checks through local law enforcement agencies.

[10] Section 1001.42(5)(a), Florida Statutes.

[11] Section 1012.22(1)(c)4.b., Florida Statutes.

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

The salary schedule and union contract provided for certain types of differentiated pay; however, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. In response to our inquiry, District personnel indicated that the District was at a standstill in the negotiating process with its teachers union and the differentiated pay process had not been finalized but will be addressed when the negotiations resume. Similar findings were noted in our report Nos. 2011-142 and 2013-156.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in State law.

Finding 6: Contractual Services

Effective contract management ensures contract provisions establish required services and related service times and satisfactory receipt of contracted services prior to payment. The Board routinely enters into contracts for services, and internal controls have been designed and implemented that generally ensure payments are consistent with contract terms and conditions.

For the 2014-15 fiscal year, payments for contractual services totaled $11 million and, to determine the propriety of these payments, we examined District records supporting the 23 selected payments totaling $1 million related to 23 contracts. Our tests disclosed that:

- Pursuant to State law,[12] the District contracted with the Clay County Board of County Commissioners and the Clay County Sheriff's Office (CCSO) for school resource officer services at eight District schools for the period October 1, 2014, through September 30, 2015. The contract required the Board to pay $450,000 on or before June 30, 2015, in exchange for the school resource officer services. The contract also required the CCSO to maintain records of services provided by the school resource officers, such as the number and types of service calls. However, the contract did not set forth the required number of days of service to be provided or the minimum service hours per day, and District personnel with direct knowledge of the school resource officer services did not document receipt of the services through time records, such as sign-in, sign-out sheets. In response to our inquiries, District personnel indicated that school resource officers work the same hours and days as the schools' teachers and that time records were not maintained by the District because the school resource officers are employees of the CCSO.
- For the 2014-15 fiscal year, the District contracted with a vendor for sign language interpretation services and made payments totaling $203,129. The contract provided for compensation rates ranging from $38 to $40 per hour and required the contractor to maintain a weekly service log of time spent by interpreters that was to be signed by the school principal and submitted to the District. In addition, the contractor was to invoice services monthly noting the student's name and the date and time the services were provided.

  Our review of the December 2014 invoice, totaling $17,727, and service logs for the weeks ended December 6 and 13, 2014, disclosed that service logs were not provided for three interpreters listed on the monthly invoice with charges totaling $684. Additionally, service logs for six interpreters with charges totaling $4,598 were not signed by the school principal to evidence

[12] Section 1006.12, Florida Statutes.

satisfactory receipt of the services. In response to our inquiries, District personnel obtained time sheets from the contractor supporting the hours worked by the interpreters at District schools and indicated that interpreters did not always maintain the logs as required. District personnel also indicated that, subsequent to our inquiry in December 2015, additional safeguards were put in place to ensure that appropriately signed weekly service logs were prepared prior to authorizing payments.

Without contract provisions to establish required services and related service times and effective procedures to document satisfactory receipt of contracted services prior to payment, there is an increased risk that the services may not be received consistent with the Board's expectations and that any errors or fraud that may occur will not be timely detected.

Recommendation: The District should ensure that written agreements clearly describe the nature of deliverables. We also recommend that the District enhance procedures to ensure that documentation of the satisfactory receipt of services is received prior to payment for the services.

Finding 7: Charter School Insurance

During the 2014-15 fiscal year, the District sponsored two charter schools, the Orange Park Performing Arts Academy (OPPAA) and the Northeast Florida Virtual Charter School Board, Inc. (NFVCSB) doing business as the Florida Virtual Academy at Clay. Each charter school agreement required, in part, that the charter school provide the District with evidence that it met certain minimum insurance requirements as specified in the contract with the District. The District's Instructional Division is responsible for monitoring compliance with the insurance requirement provisions. Our review of the District's contracts with the charter school and related District records and discussions with District personnel, disclosed that:

- The District's contract with the OPPAA required:
  - General liability insurance of $1 million per occurrence and $2 million annual aggregate and that the OPPAA's certificate of insurance include the School Board and its members, officers, employees, and agents as additional insureds; however, the OPPAA's insurance certificate did not list the additional insureds required by the contract.
  - Automobile liability insurance of $1 million per person, $1 million per accident for bodily injury, and $1 million combined single limit for each accident on all owned, non-owned and hired automobiles used in connection with the contract; however, District records did not evidence that the OPPAA had automobile insurance.
  - Workers' compensation liability of $500,000 for each accident, $500,000 for each employee, and a $500,000 policy limit; however, the certificate indicated that coverage for each accident and for each employee was only $100,000 instead of $500,000.
  - Commercial crime insurance with a $100,000 loss limit and property insurance, as applicable; however, District records indicated that the OPPAA's insurance policy for these coverages only insured a portion of the 2014-15 fiscal year.
  - The OPPAA to list the District as an additional insured on all certificates of insurance; however, none of the certificates identified the District as an additional insured.
- District records did not evidence that the NFVCSB had any insurance coverage, although the District's contract with the NFVCSB required:
  - General liability insurance of $1 million per occurrence and $2 million annual aggregate.

- Automobile liability insurance of $1 million per occurrence and $2 million annual aggregate.
- Workers' compensation liability of $1 million per occurrence and $2 million annual aggregate.
- School leader's errors and omission insurance of $1 million per occurrence and $2 million annual aggregate; and property insurance, as applicable.

Subsequent to our inquiries, District personnel contacted the OPPAA and the NFVCSB and were provided certificates of insurance for the 2015-16 fiscal year which met the minimum insurance requirements. However, without procedures to timely obtain certificates of insurance and monitor charter school insurance coverage, there is an increased risk that insurance coverage may not be adequate, subjecting the District to potential losses.

Recommendation: The District should enhance procedures to ensure that District charter schools maintain the insurance coverage required by charter school agreements and contracts.

Finding 8: Adult General Education

State law[13] defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and General Appropriations Act[14] proviso language required each district to report enrollment for adult general education programs in accordance with FDOE instructional hours reporting procedures.[15]

FDOE procedures state that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. There is also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the fiscal year 2014-15, the District reported 61,282 instructional contact hours for 129 adult general education classes provided to 657 students. As part of our audit, we reviewed District records for 1,078 hours reported for 37 students enrolled in 33 adult general education classes. We found that instructional contact hours were over reported a total of 354 hours for 12 students due to programming errors in the computer software used to calculate and report instructional contact hours.

In response to our inquiries, District personnel indicated that the programming errors resulted from a misinterpretation of FDOE procedures and would be corrected for future reporting. Since future funding is based, in part, on enrollment data submitted to the FDOE, it is important that the District report accurate data. Similar findings were noted in our report Nos. 2011-142 and 2013-156.

Recommendation: The District should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District

[13] Section 1004.02(3), Florida Statutes.

[14] Chapter 2014-51, Laws of Florida, Specific Appropriation 122.

[15] FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

should also determine to what extent the adult general education hours were misreported for the 2014-15 fiscal year and contact the FDOE for proper resolution.

Finding 9: Transportation Department Inventory

To maintain and repair buses and other motor vehicles during the 2014-15 fiscal year, the District's Transportation Department purchased parts and supplies with costs totaling $520,343 and, at June 30, 2015, the costs of the parts and supplies inventory totaled $168,415. To appropriately account for and safeguard the parts and supplies purchased by the Transportation Department, appropriate internal controls, including controls to adequately separate the incompatible duties of purchasing, receiving and issuing parts, and maintaining the parts and supplies inventory records, are necessary.

Our procedures, including discussions with District personnel and review of the inventory records, disclosed that the District did not always provide for an appropriate separation of duties related to the parts and supplies inventory as three Transportation Department employees (Transportation Supervisor, Parts Manager, and Parts Clerk) received and issued inventory, had unrestricted access to the inventory, and adjusted the perpetual inventory records. Also, two other employees (Shop Manager and Lead Mechanic) had unrestricted access to the inventory when the Parts Manager or Parts Clerk was not on duty. Under these conditions, the District has limited ability to effectively fix responsibility should a theft of inventory or error in recordkeeping occur. In response to our inquiries, District personnel indicated that these duties had not been separated because maintenance of the perpetual inventory records was limited to three Transportation Department parts employees who worked overlapping shifts and that procedures would be implemented to crosscheck inventory receipts and adjustments.

Recommendation: The District should enhance procedures to ensure that an appropriate separation of duties exists related to the Transportation Department parts. If it is not practical for the District to adequately separate the duties with existing personnel, the District should implement compensating controls to ensure the parts and supplies purchased by the Transportation Department are appropriately accounted for and adequately safeguarded.

Finding 10: Virtual Instruction Program – Written Policies and Procedures

State law[16] provides that school districts are to prescribe and adopt 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. State law[17] 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 VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

[16] Section 1001.41(3), Florida Statutes.

[17] Section 1002.45, Florida Statutes.

During the 2014-15 fiscal year, the District enrolled 179 part-time and 154 full-time VIP students. The District's pupil progression plans, student handbook, and other records identified the basis for eligibility in instructional programs, student progression requirements, attendance, mandated testing, and other information related to the VIP. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure the District's compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations.

In response to our inquiry, District personnel indicated that District procedures, along with pupil progression plans that address student attendance, promotion, and other processes, were sufficient without comprehensive, written VIP policies and procedures. Notwithstanding this response, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies discussed in Findings 11 through 15.

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

Finding 11: Virtual Instruction Program – Options

State law[18] requires school districts, under certain conditions, to provide students the option of participating, either full-time or part-time, in VIPs. Under such option, for example, school districts may offer students the choice of VIP services provided by the school district, Florida Virtual School (FLVS), another approved provider, another school district, or a virtual charter school.[19] Pursuant to State law,[20] as the District is not in a sparsely populated county, the District must offer three options for part-time and full-time virtual instruction for all grade levels.

District records evidenced that the District provided at least three virtual instruction options for students in kindergarten through grade 8; however, the District only offered two full-time options for students in grades 9 through 12. As a result, the District did not provide all students in all grade levels at least three virtual instruction options. Also, the District did not offer students in kindergarten through grade 5 the opportunity to participate in part-time virtual instruction. In response to our inquiries, District personnel indicated that the required virtual instruction options were not offered because the District misunderstood the VIP participation option requirements in State law.

Recommendation: The District should ensure that all students are offered the VIP options required by law.

[18] Section 1002.45(1)(b), Florida Statutes.

[19] Section 1002.45(1)(c), Florida Statutes.

[20] Section 1002.45(1)(b), Florida Statutes.

Finding 12: Virtual Instruction Program – Written Parental Notifications

State law[21] requires each school district to provide information to parents and students about a student's right and choice to participate in a VIP offered by the District and in courses offered by the FLVS. In addition, State law[22] requires the District to provide parents with timely, written notifications of open enrollment periods for its VIP.

For the 2014-15 school year, District personnel indicated that there were several communication methods used to provide information about the District's VIP to parents and students. These communication methods included the District's Web site, virtual school fliers, and a newspaper advertisement. While these methods demonstrate District efforts to communicate with parents and students about the VIP, District records did not evidence that the District provided written notifications directly to parents of students regarding the VIP and the VIP open enrollment periods. In addition, the District's notifications only addressed the FLVS - Clay Virtual Academy and did not include information regarding courses offered by the Florida Virtual Academy at Clay or the District's contracted VIP provider.

District personnel indicated that they believed the communication methods utilized satisfied State law. However, without direct notifications, timely provided in writing to parents, some parents may not be informed of available VIP options and open enrollment periods, potentially limiting student access to virtual instruction. Such direct notifications could be made in writing by letter or e-mail.

Recommendation: The District should ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment periods.

Finding 13: Virtual Instruction Program – Provider Contract

State law[23] requires that each contract with an FDOE-approved VIP provider contain certain provisions. For example, State law[24] requires FDOE-approved VIP providers to publish student-teacher ratios and other instructional information in all negotiated contracts. In addition, to ensure appropriate controls over data quality, security measures, and provider contract compliance, VIP provider contracts need to contain other necessary provisions to establish the District's expectations for these providers. District records also need to evidence the basis upon which District personnel determined the reasonableness of student-teacher ratios established in the VIP provider contracts.

Our review of the District's contract with an FDOE-approved VIP provider and other records disclosed that:

- The District's contract with the FDOE-approved provider established student-teacher ratios that ranged from 65:1 (kindergarten through grade 8) to 250:1 (for grades 9 through 12 elective courses). However, District records did not evidence the basis upon which District personnel determined the reasonableness of the student-teacher ratios. Without records documenting the

[21] Section 1002.45(10), Florida Statutes.

[22] Section 1002.45(1)(b), Florida Statutes.

[23] Section 1002.45(4), Florida Statutes.

[24] Section 1002.45(2)(a)8.e., Florida Statutes.

reasonableness of established ratios, there is an increased risk that the number of students in the VIP classes may be excessive and reduce the quality of the provider's virtual instruction.

- The contract did not include data quality requirements. Providers are to maintain significant amounts of education data to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law.[25] Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. 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 providers.
- The contract did not specify any minimum required security controls the District considered necessary to protect the confidentiality, availability, and integrity of critical and sensitive education data. While the contracts contained requirements for the providers to implement, maintain, and use appropriate administrative, technical, or physical security measures required by Federal law,[26] without specified minimum required security controls, there is an increased risk that provider information security and other information technology controls may not be sufficient to protect the education data.
- The contract did not provide for the District's monitoring of provider compliance with contract terms or quality of instruction. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.

Recommendation: The District should ensure that District records document the reasonableness of the student-teacher ratios established in VIP provider contracts. In addition, the District should ensure that VIP provider contracts include a provision for monitoring provider compliance as well as provisions specifying the minimum required security controls and promoting education data quality.

Finding 14: Virtual Instruction Program – Provider Background Screenings

State law[27] requires VIP providers to conduct background screenings for all employees as a condition of approval by the FDOE as a VIP provider in the State. The FDOE process for approving VIP providers requires applicants to submit assurances that applicant employees have obtained the required background screenings and the required assurances indicate that lists of the background-screened employees are to be provided to each applicable school district. However, the District's contracted FDOE-approved VIP provider did not provide the District a list of provider employees who obtained the required background screenings and District personnel indicated that they relied on the provider to obtain the required background screenings for provider employees.

To determine whether required background screenings had been timely performed for the VIP provider employees, we requested the District to provide documentation, as of June 2015, that all the VIP provider employees had been subject to required background screenings; however, none was provided. Subsequent to our inquiry in January 2016, the District requested and obtained from the provider in

[25] Section 1008.31, Florida Statutes.

[26] The Family Educational Rights and Privacy Act (Title 20, Section 1232g, United States Code).

[27] Section 1002.45(2)(a)3., Florida Statutes.

January 2016 documentation of the required background screenings for the 25 VIP provider employees for the 2015-16 fiscal year.

As similarly noted in Finding 4, there is an increased risk that individuals with unsuitable backgrounds may be interacting with students absent effective controls to ensure that background screenings of VIP provider employees are timely performed. In addition, without such controls, individuals with unsuitable backgrounds may be granted access to confidential or sensitive District data and information technology resources.

Recommendation: The District should routinely verify that the required background screenings are performed for all VIP provider employees.

Finding 15: Virtual Instruction Program – Computing Resources

State law[28] requires school districts to provide to each full-time VIP student who qualifies for free or reduced-price school lunches, or who is on the direct certification list, and who does not have a computer or Internet access in his or her home all equipment necessary to participate in the VIP. Such equipment includes, but is not limited to, a computer, a monitor, and a printer, if necessary. The school districts are also to provide qualifying students with Internet access for online delivery of instruction.

The District provided computing resources to 40 students participating in a VIP; however, District records did not evidence that 10 of these students qualified for free or reduced-price school lunches or were on the direct certification list. In response to our inquiries, District personnel indicated that the District's computer systems deleted 6 of the students' free and reduced-price meal eligibility information when the students were subsequently withdrawn from the District school system. However, food service records are governed by the State of Florida *General Records Schedule GS7 for Public Schools Pre-K – 12 and Adult and Career Education* (*General Records Schedule*), which requires free and reduced-price meal records be retained for 5 fiscal years. District personnel indicated that 2 of the other 4 students were homeless and another was eligible for the State Food Assistance Program and automatically qualified for free and reduced-priced meals; however, documentation of these circumstances and of the remaining student's eligibility for computing resources was not available. According to District personnel, procedures were implemented for the 2015-16 fiscal year to ensure that documentation is maintained evidencing student eligibility for computing resources.

Recommendation: The District should continue efforts to ensure that District records document VIP student eligibility for computing resources and that free and reduced-price meal eligibility records for VIP students are retained in accordance with the *General Records Schedule*.

Finding 16: Information Technology – Security Incident Response Plan

Computer security incident response plans are established by management to promote an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include provisions for a

[28] Section 1002.45(3)(d), Florida Statutes.

team trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

Although District management drafted computer security incident procedures including identification of computer security incidents and response team members, the District's computer security incident response plan had not been completed and did not include:

- Established procedures for capturing and maintaining events associated with an incident.
- An established process for involving the appropriate local, State, and Federal authorities.
- An established process, pursuant to State law,[29] for notifying applicable parties when the breach of security of confidential personal information has occurred or is reasonably believed to have occurred.

In addition, the District's response team members had not been trained with regard to their roles and responsibilities. In response to our inquiry, District management indicated that the plan had not been completed because of turnover in key personnel responsible for the plan, but completion of the plan is anticipated by spring of 2016. Management further indicated that response team training would follow the plan's completion.

Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the absence of a completed computer security incident response plan, including response team members trained in roles and responsibilities, may result in District management's failure to take timely and appropriate actions to prevent further loss or damage to the District's data and IT resources. A similar finding was noted in our report No. 2013-156.

Recommendation: To provide reasonable assurance that the District will timely and appropriately respond to events that may jeopardize the confidentiality, integrity, or availability of District data and IT resources, District management should complete its computer security incident response plan and include the capturing and maintaining of security events, involvement of appropriate authorities, and notification of applicable parties in the plan. In addition, the District's response team members should be trained with regard to their roles and responsibilities.

Finding 17: Information Technology – Access Controls

Access controls are intended to protect District data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodic reviews of access privileges are necessary to ensure that employees can access only those IT resources that are necessary to perform their assigned job duties and that the assigned access privileges enforce an appropriate separation of incompatible duties.

Our test of selected IT access privileges to the District's business application, including finance and human resources (HR), and the supporting operating system disclosed that some access privileges

[29] Section 501.171, Florida Statutes.

assigned to certain employees were unnecessary for their assigned job duties or inappropriately permitted certain employees to perform incompatible functions. Specifically, we found that:

- An Instructional Application Specialist and a Programmer Analyst had operating system special authority that allowed certain system security administration functions to be performed. The special authority is appropriate only for those employees who are assigned responsibilities for system security administration. In response to our audit inquiry, District management indicated that the special authority had been removed for these two employees. A similar finding was noted in our report No. 2013-156.
- The Purchasing Director and two Purchasing Coordinators had the ability to update critical finance transactions including, among other things, adding and updating vendor records and information, creating and approving requisitions and purchase orders, and processing vendor payments. These access privileges were contrary to an appropriate separation of duties.

As similarly noted in our report Nos. 2011-142 and 2013-156, District management did not have procedures in place for the periodic review of IT access privileges. The existence of unnecessary or inappropriate IT access privileges and the absence of a periodic review of IT access privileges increases the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur and not be timely detected.

Recommendation: District management should ensure that IT access privileges granted are necessary and enforce an appropriate separation of duties. In addition, District management should develop procedures for the periodic review of IT access privileges and timely remove any unnecessary or inappropriate access privileges detected.

Finding 18: Information Technology – Timely Deactivation of Access Privileges

Effective management of IT access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned or separates from employment. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

Our audit procedures disclosed that District management had not developed written policies and procedures for the timely deactivation of access privileges assigned to employees separating from employment with the District. Our test of District records for 13 former District employees, who had separated from employment during the period July 1, 2014, through February 24, 2015, disclosed that, as of March 2, 2015, the network access privileges for 2 of the former employees remained active for 74 and 164 days after termination of employment, respectively. In response to our inquiry, District management indicated that the former employees' accounts had since been deactivated; however, no information was available regarding whether the accounts had been used between the former employees' last work day and deactivation.

Without timely deactivation of access privileges, the risk is increased that the access privileges may be misused by former employees or others. A similar finding was noted in our report No. 2013-156.

Recommendation: District management should establish written policies and procedures for the timely deactivation of access privileges when employees are reassigned or separate from employment from the District and should also ensure that network access privileges assigned to former employees are timely deactivated.

Finding 19: Information Technology – Disaster Recovery Plan

Disaster recovery planning is an element of IT controls established to manage the availability of critical data and IT resources in the event of a disaster or processing disruption. The primary objective of disaster recovery planning is to provide a plan for continuing critical operations in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel and critical data, processes, and applications; provide for backups of critical data sets; and include step-by-step procedures for recovery.

The District did not have a written disaster recovery plan. In response to our inquiries, District personnel indicated that they were in the process of developing a disaster recovery plan but the process was not yet completed. The absence of a written disaster recovery plan may hinder the District's effort to minimize the impact of, and timely recovery from, a disaster or other disruption of operations.

Recommendation: The District should develop a written IT disaster recovery plan that identifies the District's key recovery personnel and critical data, processes, and applications; provides for backups of critical data sets; and includes step-by-step procedures for recovery. In addition, once developed, the District should test the plan at least annually.

Finding 20: Information Technology – Security Controls – User Authentication, Data Loss Prevention, and Monitoring of System Activity

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

Without adequate security controls related to user authentication, data loss prevention, and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings related to user authentication were communicated to District management in connection with our report Nos. 2011-142 and 2013-156 and related to data loss prevention and monitoring of system activity in connection with our report No. 2013-156.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 2015-001:	
Federal Agency:	**United States Department of Agriculture**
Pass-Through Entity:	**Florida Department of Agriculture and Consumer Services (FDACS)**
CFDA Numbers:	**10.553 and 10.555**
Program Title:	**Child Nutrition Cluster (CNC)**
Compliance Requirements:	**Allowable Costs/Cost Principles – Documentation of Time and Effort**
Finding Type:	**Noncompliance and Significant Deficiency**
Questioned Costs:	**None**

Federal regulations[30] provide, for charges to Federal awards for salaries and wages, that for employees expected to work on multiple cost activities or objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports (PARs) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, the total activity for which each employee is compensated, and must be signed by the employee. In addition, budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes.

For the 2014-15 fiscal year, the District reported expenditures of $9,691,258.02 for the CNC. Our review of personnel costs charged to the CNC disclosed that:

- The District allocated costs, totaling $633,119.95, to the CNC for 306 employees to assist special education students at various schools during the lunch hour. However, these employees did not maintain required PARs or equivalent documentation. Instead, District personnel allocated costs to the program based on 10 percent of each employee's salary.

  Subsequent to our inquiries, District personnel obtained work schedules for the employees, which identified the time assigned to work in the cafeterias. Based on the work schedules, District personnel determined that only 59 of the 306 employees worked in the cafeterias, spending from 3 to 14.8 percent of their work day assisting special education students. The salaries and benefits costs related to these 59 employees for the time spent in the cafeterias totaled $98,192.13, or $534,927.82 less than the amount charged to the CNC.

  After we delivered the preliminary and tentative audit findings, District personnel obtained from the school principals the work schedules for all other school employees, identified the portion of the work day assigned to lunchroom monitoring duties, and calculated that the actual cost of lunchroom monitoring services provided exceeded the amount charged for assisting special education students. We expanded our procedures to include a review of these calculations and confirmed that the District did not overcharge the CNC programs for salaries and benefits costs.

- Although several custodial employees at each school provided services for the CNC, the District allocated the full salary and benefits of a single employee from each school to the CNC. The District selected this method of allocation based on an estimate that, in the aggregate, the various custodians at each school would spend the equivalent of one full day working in the cafeteria.

  Subsequent to our inquiries, District personnel obtained weekly work schedules for the custodians from the school principals for one week and calculated, and our review confirmed, that the actual

[30] Title 2, Part 225, Appendix B, Item 8.h., Code of Federal Regulations.

cost of custodial services provided exceeded the amount charged to the programs and, therefore, determined that the CNC programs were not overcharged for custodial services.

Absent the required PARs or equivalent documentation to demonstrate actual time devoted to CNC activities, there is an increased risk that personnel costs may be inappropriately charged to the CNC programs.

Recommendation: The District should enhance procedures to ensure that only allowable costs are charged to Federal programs and that required documentation is maintained to support salaries and benefits charged to Federal programs.

District Contact Person: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

Federal Awards Finding No. 2015-002:	
Federal Agencies:	**United States Department of Agriculture** **United States Department of Education**
Pass-Through Entity:	**Florida Department of Agriculture and Consumer Services (FDACS)** **Florida Department of Education (FDOE)**
CFDA Numbers:	**10.553 and 10.555; 84.027 and 84.173 (Major Federal Programs)** **84.010 (Nonmajor Federal Program)**
Program Title:	**Major Federal Programs: Child Nutrition Cluster (CNC); Special Education Cluster (SEC)** **Nonmajor Federal Program: Title I Grants to Local Educational Agencies (Title I)**
Compliance Requirements:	**Allowable Costs / Cost Principles – Contributions to Self-Insurance Program**
Finding Type:	**Noncompliance and Significant Deficiency**
Questioned Costs:	**CNC – $97,009.36, SEC – $98,425.76, and Title I – $42,605.77**

Federal regulations[31] provide that employers' contributions to a reserve for a workers' compensation self-insurance program must be based on sound actuarial principles using historical experience and reasonable assumptions, and that actual claims paid to or on behalf of employees or former employees are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.

For the 2014-15 fiscal year, the District reported $986,182.17 in workers' compensation self-insurance program expenditures. To determine the total contributions necessary to meet the fiscal demands of the workers' compensation self-insurance program, the District estimated the funding needed for the 2014-15 fiscal year and calculated a contribution amount based on a percentage of salary expenditures that, when applied to District salaries paid from all funds, would provide sufficient premium contributions to the workers' compensation self-insurance program. The District charged the CNC, SEC, and Title I program $97,009.36, $98,425.76, and $42,605.77, respectively, including indirect costs, for their share of contributions to the workers' compensation self-insurance program. However, District personnel did not charge the General Fund for its share of the contributions to the workers' compensation self-insurance program. According to District personnel, the cost of the workers' compensation self-insurance contributions were not charged to the District's General Fund to avoid a further decline in the District's financial condition, as discussed in Finding 1.

[31] Title 2, Part 225, Appendix B, Item 22, Code of Federal Regulations.

As, contrary to Federal regulations, the District's contributions to the workers' compensation self-insurance program did not follow a consistent costing policy and the contributions were not allocated as a general administrative expense to all District activities, these expenditures, totaling $97,009.36 for the CNC, $98,425.76 for the SEC, and $42,605.77 for the Title I program, represent questioned costs.

Recommendation: The District should enhance procedures to ensure that only allowable costs are charged to Federal programs and that contributions to the workers' compensation self-insurance program follow a consistent costing policy and are allocated as a general administrative expense to all District activities. In addition, the District should document the allowability of the questioned costs for the CNC, the SEC, and the Title I Program to the respective grantors (FDACS or FDOE) or restore these amounts to the respective programs.

District Contact Person: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except as noted in Findings 1, 5, 8, 16, 17,18, and 20 and shown in Table 3.

Table 3
Findings Also Noted in Previous Audit Reports

	Financial and Federal Single Audit		Operational	
Current Fiscal Year Finding Number	2013-14 Fiscal Year CPA Firm Financial Audit Report, Finding	2012-13 Fiscal Year CPA Firm Financial Audit Report, Finding	2011-12 Fiscal Year Operational Audit Report No. 2013-156, Finding	2009-10 Fiscal Year Operational Audit Report No. 2011-142, Finding
1	2014-1	2013-3	Not Applicable	Not Applicable
5	Not Applicable	Not Applicable	8	2
8	Not Applicable	Not Applicable	7	4
16	Not Applicable	Not Applicable	10	Not Applicable
17	Not Applicable	Not Applicable	11	7
18	Not Applicable	Not Applicable	12	Not Applicable
20	Not Applicable	Not Applicable	13	8

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

SCHOOL DISTRICT OF CLAY COUNTY

900 Walnut Street
Green Cove Springs, Florida 32043
Telephones:
904/284-6500 (GCS) 904/272-8100 (OP)
1-888-663-2529 (KH)
FAX 904/284-6525 TDD 904/284-6584

Charlie Van Zant, Jr.
Superintendent of Schools

March 16, 2016

Honorable Sherrill F. Norman, CPA
Office of the Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Management Response to Tentative and Preliminary Findings of the Financial, Operational, and Federal Single Audit of the School Board of Clay County for FY 2014/2015.

Dear Ms. Norman:

Attached are the responses to the preliminary and tentative audit findings and recommendations for the fiscal year ending June 30, 2015.

I would like to express our appreciation for the manner in which the audit was conducted. Your staff conducted themselves in a professional manner throughout the audit and has been helpful in identifying and discussing the areas addressed in the audit.

Respectfully,

Diane Hornegay for Charlie Van Zant

Charles VanZant, Superintendent
School Board of Clay County

Innovate *Engage* *Empower*

"An Equal Opportunity Employer"

Finding No. 1: At June 30, 2015, and at the end of each of the two previous fiscal years (June 30, 2013 and June 30, 2014), the District's General Fund total assigned and unassigned fund balances have been only slightly over 2 percent of the Fund's total revenues. As a result, the District has had fewer resources for emergencies and unforeseen situations than other school districts of comparable size. Similar findings were noted in audit reports for the 2012-13 and 2013-14 fiscal years.

Recommendation: The Board and the Superintendent should continue efforts to closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

District Response: Ongoing commitment is pledged by the School District of Clay County School Board, Superintendent and staff to rebuild the General Fund balance at the appropriate threshold percent by keeping expenditures within available resources and setting aside a reserve to gradually progress toward the 3 percent goal.

District Contact: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

Finding No. 2: The Board needs to develop a formal plan for monitoring the financial condition of the Internal Service Fund and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the self-insurance program.

Recommendation: The Board should develop a formal plan for monitoring the financial position of the Internal Service Fund and for providing premium contributions sufficient to maintain a favorable net position to meet the fiscal demands of the self-insurance program**.**

District Response: The District agrees with the recommendation and through the budget process for 2015-2016 has included accommodations to include sufficient premium contributions to maintain a favorable net position to meet the fiscal demands of the self-insurance program. In addition, budgets are monitored on a monthly basis.

District Contact: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

Finding No. 3: The Board could enhance policies and procedures for the mitigation, detection, and reporting of fraud.

Recommendation: The District should enhance policies and procedures for reporting known or suspected fraud to allow individuals to anonymously report policy violations and known or suspected fraud. The District should also establish a process requiring any instances of known or suspected fraud related to the actions of District management be communicated and reported to the Board and District legal counsel.

District Response: The Board will review its current policies and procedures and enhance its fraud policies to identify the consequences of fraudulent behavior and allow individuals to anonymously report policy violations and known or suspected fraud.

District Contact: Cathy Richardson, Supervisor Human Resource

Finding 4: The District did not always timely perform required background screenings for applicable instructional and noninstructional employees and charter school employees and board members.

Recommendation: The District should take immediate action to identify employees who have not obtained the required background screenings, ensure the screenings are promptly obtained and evaluated, and make personnel decisions, as necessary, based on evaluations of the screenings. In the future, the District should ensure that required background screenings are timely performed for District employees, charter school employees, and members of the charter schools' governing boards.

District Response: The District agrees with the findings and has reviewed its current procedures and developed new procedures that will ensure that required background screenings are timely performed for District employees, charter school employees, and members of the charter schools' governing boards.

District Contact: Cathy Richardson, Supervisor Human Resource

Finding No. 5: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Similar findings were noted in our report Nos. 2011-142 and 2013-156.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in State law.

District Response: The District is committed to using the collective bargaining process to mutually develop a salary schedule to provide for certain types of differentiated pay that are required by State statute. As such, the District has properly negotiated additional compensation for teachers who take on additional responsibilities or who have been determined, through the collective bargaining process, to have a higher degree of job performance difficulty. The amounts of this additional compensation and process for determining eligibility are clearly articulated in Appendix IV C of the Master Contract.

The District and its union organization identified Title I schools as critical shortage areas and in need of the additional compensation. To establish procedures for identifying critical shortage areas, the District will review existing staffing levels and vacancy areas, and the Superintendent's staff will take any appropriate recommendations for future critical shortage areas to the bargaining table so that an appropriate differentiated pay amount can be properly negotiated.

District Contact: Cathy Richardson, Supervisor Human Resource

Finding No. 6: The District needs to improve controls over contractual service agreements and related payments**.**

Recommendation: The District should ensure that written agreements clearly describe the nature of deliverables. We also recommend that the District enhance procedures to ensure that documentation of the satisfactory receipt of services is received prior to payment for the services.

District Response: The District has implemented procedures for review of services prior to payment. This review includes, but is not limited to, cross-referencing invoices with timesheets and other supporting evidence to confirm delivery of services prior to payment.

District Contact: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

Finding 7: District records did not evidence that the District's charter schools maintained appropriate insurance coverage.

Recommendation: The District should enhance procedures to ensure that District charter schools maintain the insurance coverage required by charter school agreements and contracts.

District Response: The District agrees with the recommendation and has enhanced the annual and quarterly monitoring procedures to confirm that the school maintains the insurance coverage required by the charter school agreements and contracts.

District Contact: Frances Celis, Supervisor, K-12 and Charter Schools

Finding No. 8: As similarly noted in our report Nos. 2011-142 and 2013-156, the District needs to strengthen controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Recommendation: The District should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District should also determine to what extent the adult general education hours were misreported for the 2014-15 fiscal year and contact the FDOE for proper resolution.

District Response: The Center for Adult Education, in collaboration with Information Services, has made the necessary adjustments to ensure that students reaching maximum absences are withdrawn from the classes in which they are enrolled on the following day beyond his/her 5th or 6th absence, respectively. Attendance records are submitted by instructors daily through the Student Information System and comprehensive attendance records are pulled from our Student Information System by an administrative assistant twice weekly. From these reports, the administrative assistant withdraws the students, effective the day following the 5th/6th absence. The administrator over the program cross checks all reports and withdraws each week for accuracy. Previously, there was confusion with the end drop date being the end of the term in which the maximum absences occurred; this was a state-wide error in perception, which has been clarified and revised by the Florida Department of Education.

Additionally, the Information Services Department is writing a custom report to self-report the discrepancy in hours reported by the Center for Adult Education for the 2014-2015 fiscal year for the purpose of submitting this information to the Florida Department of Education.

District Contact: Shannah Kosek, Supervisor Adult Education

Finding No. 9: District controls need to be enhanced to ensure that inventory items purchased by the Transportation Department are appropriately accounted for and safeguarded.

Recommendation: The District should enhance procedures to ensure that an appropriate separation of duties exists related to the Transportation Department parts. If it is not practical for the District to adequately separate the duties with existing personnel, the District should implement compensating controls to ensure the parts and supplies purchased by the Transportation Department are appropriately accounted for and adequately safeguarded.

District Response: The Transportation Department has taken additional action to separate duties between the parts staff and the supervisor. Although the supervisor did not regularly make transactions within the inventory management system, access was maintained to provide inquiry and training to staff. The parts team will no longer have the ability to make adjustments to the perpetual inventory system and the supervisor will no longer have the ability to create orders or issue parts. To further separate tasks, the supervisor or another designated transportation staff member, other than the parts team, will make any necessary adjustments to the inventory records following periodic inventory cycle counts. This will allow the supervisor to investigate why inventory adjustments are required. Additional procedures have been implemented for crosschecking inventory receipts and the issuance of parts to work-orders.

District Contact: Robert Warenburg, Transportation Director

Finding No. 10: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures**.**

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

District Response: The District agrees with the recommendation and will update the VIP policies and procedures manual to ensure there are adequate controls over virtual instruction program. The District intends to review it bi-annually to make necessary updates as needed.

District Contact: Lana Racine-Haffner, School Principal

Finding No. 11: The District did not offer the required number of VIP options to all students.

Recommendation: The District should ensure that all students are offered the VIP options required by law.

District Response: The District agrees with the recommendation and we have contacted other Florida districts to secure options for the 2016-17 school year. These options will be available to all grade levels.

District Contact: Lana Racine-Haffner, School Principal

Finding No.12: The District could enhance procedures to better ensure that timely, written notifications are provided to parents about all VIP options offered.

Recommendation: The District should ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment periods.

District Response: The District agrees with the recommendation and has developed procedures to ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP program. The District has communicated to parents via post cards to homeschool families, advertisement in the local paper and on the District's website. During the current audit review, it became apparent that we could also use the email system to inform our families. The District will include the use of the email system to inform all our families prior to the open enrollment period in April 2016.

District Contact: Lana Racine-Haffner, School Principal

Finding No. 13: The VIP provider contract did not include certain necessary provisions and District records did not evidence the basis upon which District personnel determined the reasonableness of student teacher ratios established in the Florida Department of Education approved VIP provider contract.

Recommendation: The District should ensure that District records document the reasonableness of the student-teacher ratios established in VIP provider contracts. In addition, the District should ensure that VIP provider contracts include a provision for monitoring provider compliance as well as provisions specifying the minimum required security controls and promoting education data quality.

District Response: The VIP providers and ratios were approved by the Florida Department of Education, and we relied on the Department for the approved ratios. The District is currently working with all Florida VIP districts and the VIP provider to ensure the VIP provider in question amends the contract for all districts.

District Contact: Lana Racine-Haffner, School Principal

Finding No. 14: District records did not evidence that VIP provider employees were subject to required background screenings.

Recommendation: The District should routinely verify that the required background screenings are performed for all VIP provider employees.

District Response: The VIP providers are approved by the Florida Department of Education. Our understanding was that the Department was responsible for their background screenings. We were not aware we needed to keep this on file. As noted in the audit findings, we did receive this information for the 2015-16 fiscal year. This will be placed in the procedure manual for future years.

District Contact: Lana Racine-Haffner, School Principal

Finding No. 15: District records did not always evidence that the District provided computing resources only to qualifying VIP students**.**

Recommendation: The District should continue efforts to ensure that District records document VIP student eligibility for computing resources and that free and reduced-price meal eligibility records for VIP students are retained in accordance with the General Records Schedule.

District Response: The classified information in LMS system did not maintain records of school/food records from the 2014-15 school year. All students were verified in the 2014-15 school year but records were not kept in a binder because it viewable in the LMS system. Updates to the LMS system did not keep this active for the 2015-16 school year. We are now printing the classified page from the LMS system and securing in a binder along with the signed contract from the family. This will be part of our policy/procedure manual.

District Contact: Lana Racine-Haffner, School Principal

Finding 16: The District's computer security incident response plan had not been completed and needs to be improved to promote an appropriate, effective, and timely response by District management to security incidents. In addition, the District's response team had not been trained to ensure adequate preparation for team member roles and responsibilities. A similar finding was noted in our report No. 2013-156.

Recommendation: To provide reasonable assurance that the District will timely and appropriately respond to events that may jeopardize the confidentiality, integrity, or availability of District data and IT resources, District management should complete its computer security incident response plan and include the capturing and maintaining of security events, involvement of appropriate authorities, and notification of applicable parties in the plan. In addition, the District's response team members should be trained with regard to their roles and responsibilities.

District Response: The District completed its computer security incident response plan in February 2016.

District Contact: Carl Hendrick, Assistant Superintendent Information Services

Finding 17: Some unnecessary or inappropriate information technology (IT) access privileges continue to exist. In addition, as similarly noted in our report Nos. 2011-142 and 2013-156, District management did not have procedures in place for the periodic review of IT access privileges to timely detect unnecessary or inappropriate access privileges.

Recommendation: District management should ensure that IT access privileges granted are necessary and enforce an appropriate separation of duties. In addition, District management should develop procedures for the periodic review of IT access privileges and timely remove any unnecessary or inappropriate access privileges detected.

District Response: The District has revised its procedures to provide for a weekly review of changes to access privileges. A report is produced from the enterprise resource system that indicates termination or any changes in position and permissions are adjusted accordingly. Additionally, the District will implement a top down review of access privileges. This is anticipated to take place in the Summer of 2016.

Both instances cited in the audit findings have been resolved.

District Contact: Carl Hendrick, Assistant Superintendent Information Services

Finding 18: District management had not developed written policies and procedures for the timely deactivation of access privileges when employees are reassigned or separate from District employment, and the District did not timely deactivate two former employees' access privileges. A similar finding was noted in our report No. 2013-156.

Recommendation: District management should establish written policies and procedures for the timely deactivation of access privileges when employees are reassigned or separate from employment from the District and should also ensure that network access privileges assigned to former employees are timely deactivated.

District Response: The District has developed written procedures to ensure timely deactivation of access privileges when employees are reassigned or separate from employment form the District.

District Contact: Carl Hendrick, Assistant Superintendent Information Service

Finding No. 19: The District did not have a written IT disaster recovery plan.

Recommendation: The District should develop a written IT disaster recovery plan that identifies the District's key recovery personnel and critical data, processes, and applications; provides for backups of critical data sets; and includes step-by-step procedures for recovery. In addition, once developed, the District should test the plan at least annually.

District Response: The District completed development of its Disaster Recovery Plan in February 2016. The District will also test the plan annually.

District Contact: Carl Hendrick, Assistant Superintendent Information Services

Finding No. 20: District security controls related to user authentication, data loss prevention, and monitoring of system activity continue to need improvement.

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

District Response: The District will take appropriate actions to improve the security controls related to user authentication, data loss prevention, and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

District Contact: Carl Hendrick, Assistant Superintendent Information Services

Federal Awards Finding No. 2015-001: The District did not maintain required documentation to support salary and benefit charges for several District employees.

Recommendation: The District should enhance procedures to ensure that only allowable costs are charged to Federal programs and that required documentation is maintained to support salaries and benefits charged to Federal programs.

District Response: The District will require the preparation of personnel activity reports for all employees whose salaries and benefits are charged to the food service programs.

District Contact: Dr. Susan Legutko, Assistant Superintendent for Business Affairs

Federal Awards Finding No. 2015-002: The District's contributions to its workers' compensation self-insurance program did not follow a consistent costing policy and were not allocated as a general administrative expense to all District activities, resulting in questioned costs of $97,009.36 for the Child Nutrition Cluster, $98,425.76 for the Special Education Cluster, and $42,605.77 for the Title I Program.

Recommendation: The District should enhance procedures to ensure that only allowable costs are charged to Federal programs and that contributions to the workers' compensation self-insurance program follow a consistent costing policy and are allocated as a general administrative expense to all District activities. In addition, the District should document the allowability of the questioned costs for the CNC, the SEC, and the Title I Program to the respective grantors (FDACS or FDOE) or restore these amounts to the respective programs.

District Response: The District has implemented procedures to ensure that only allowable costs charged to Federal programs and that the contributions to the workers compensation self-insurance program are consistent across all funds. District staff will contact the FDACS and FLDOE to resolve the finding prior to closing of the fiscal year 2015-2016.

District Contact: Dr. Susan Legutko, Assistant Superintendent for Business Affairs