

**BAKER COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND SUPERINTENDENTS

Baker County District School Board members and the Superintendents who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
Earl Dwight Crews, Vice Chair from 11-18-2008	1
Richard Dean Griffis	2
Karen Ferry McCollum, Vice Chair to 11-17-2008	3
James Paul Raulerson	4
Patricia C. Weeks, Chair	5

Paula T. Barton, Superintendent to 11-17-2008
Sherrie Raulerson, Superintendent from 11-18-2008

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

The audit team leader was Robert E. Taylor, CPA, and the audit was supervised by Cathy L. Bandy, CPA. For the information technology portion of this audit, the audit team leader was Amanda B. Fazio, CPA, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**BAKER COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 2: The District had not removed the access privileges of certain former employees in a timely manner.

Finding No. 3: The District did not have a formal program change methodology and did not restrict programmers from accessing or updating production programs and data.

Finding No. 4: The District had not classified its data according to sensitivity or level of significance.

Finding No. 5: Certain controls related to logging and review needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, and Title I, Part A Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note internal control and compliance findings as summarized below.

Federal Awards Finding No. 1: District records indicated that two Title I teachers did not meet the highly qualified teaching requirements.

Federal Awards Finding No. 2: Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Federal Central Contractor Registration database.

Audit Objectives and Scope

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

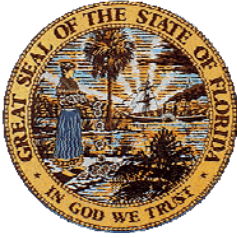
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a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

- Taken corrective actions for findings included in our report No. 2009-099.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2009. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 23 percent of the assets and 60 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Baker County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Baker County District School Board as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 48) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
January 15, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Baker 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, 2009. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 10 through 44.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- The District's net assets increased by \$5.5 million, reaching a year-end balance of \$44.5 million, which represents a 14.2 percent increase from the 2007-08 fiscal year. This increase is due primarily to an increase in capital grants and contributions and a reduction in workforce and equipment purchases.
- During the current year, the District's General Fund revenues totaled \$35.9 million, representing a decrease of approximately \$0.7 million from the 2007-08 fiscal year. Expenditures totaled \$35.1 million for the 2008-09 fiscal year, representing a decrease of 6.6 percent from the 2007-08 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to 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 assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

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

The BCSB 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 three broad categories as discussed below.

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

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

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

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

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

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

responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

	Net Assets, End of Year	
	Governmental	
	Activities	
	06-30-09	06-30-08
Current and Other Assets	\$ 14,311,977	\$ 12,921,748
Capital Assets	46,076,640	44,008,540
Total Assets	60,388,617	56,930,288
Long-Term Liabilities	12,609,952	12,602,779
Other Liabilities	3,320,710	5,400,973
Total Liabilities	15,930,662	18,003,752
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	37,128,286	34,528,520
Restricted	5,615,532	3,421,137
Unrestricted	1,714,137	976,879
Total Net Assets	\$ 44,457,955	\$ 38,926,536

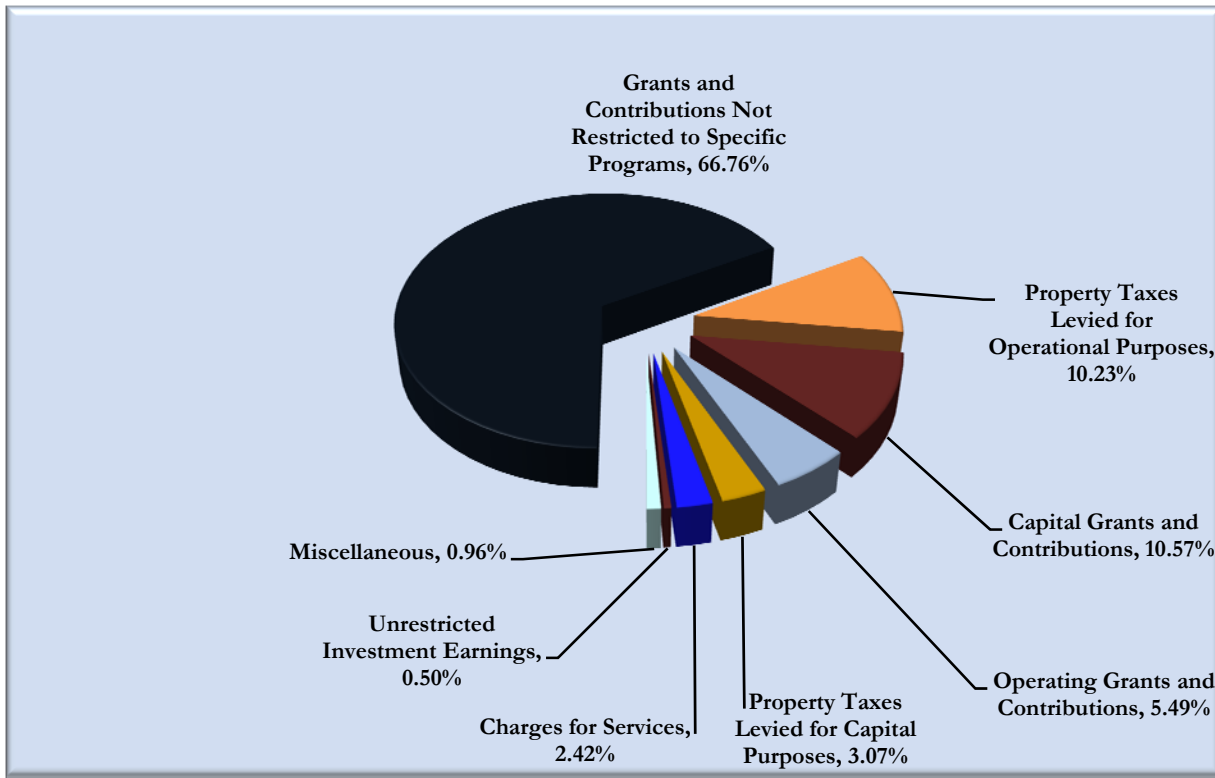
The largest portion of the District’s net assets (83.5 percent) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets (12.6 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (3.9 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

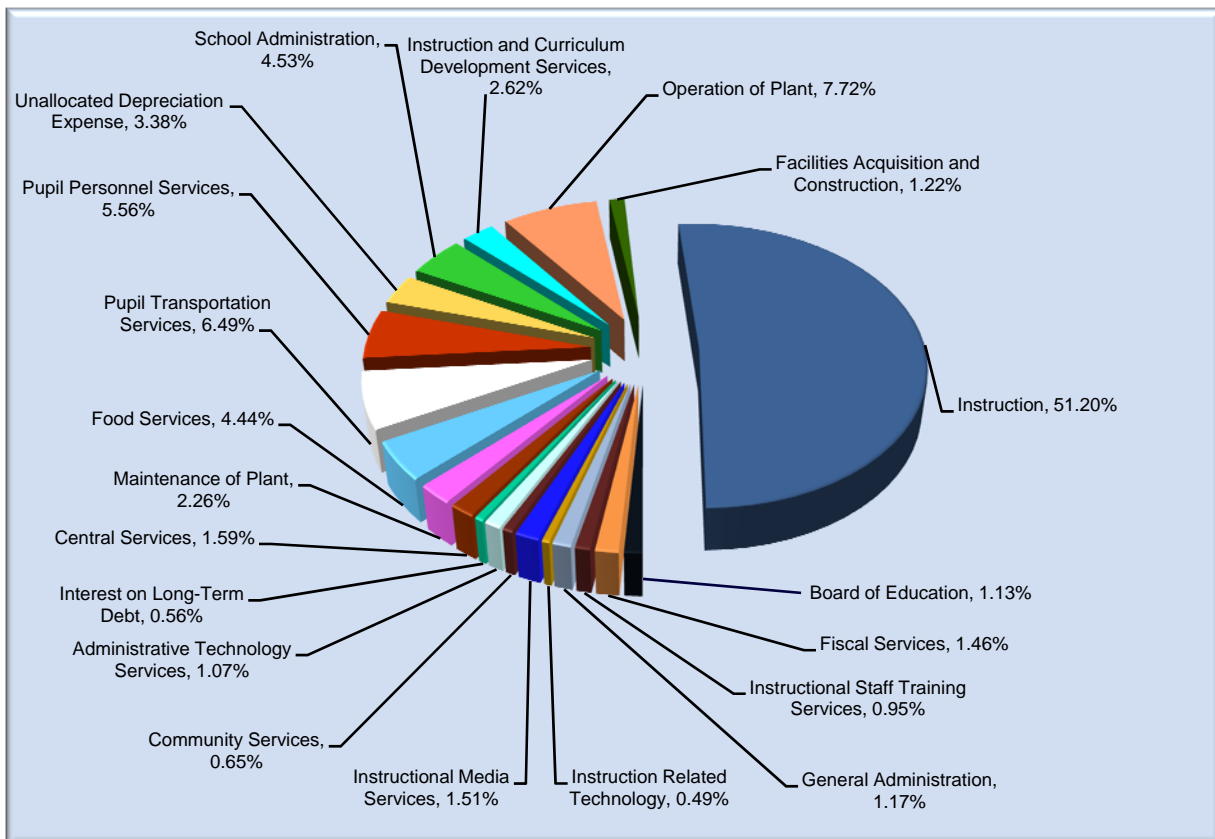
The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 1,133,189	\$ 988,450
Operating Grants and Contributions	2,571,928	2,339,527
Capital Grants and Contributions	4,949,918	1,057,860
General Revenues:		
Property Taxes, Levied for Operational Purposes	4,791,928	4,616,652
Property Taxes, Levied for Capital Projects	1,434,862	1,621,515
Grants and Contributions Not Restricted to Specific Programs	31,267,985	32,213,729
Unrestricted Investment Earnings	235,971	352,729
Miscellaneous	450,556	624,281
Total Revenues	46,836,337	43,814,743
Functions/Program Expenses:		
Instruction	21,151,116	21,927,008
Pupil Personnel Services	2,297,988	2,428,052
Instructional Media Services	622,240	701,571
Instruction and Curriculum Development Services	1,081,021	1,176,402
Instructional Staff Training Services	392,664	449,793
Instruction Related Technology	201,509	274,478
Board of Education	464,999	400,287
General Administration	483,672	413,498
School Administration	1,870,839	1,911,778
Facilities Acquisition and Construction	501,958	1,588,908
Fiscal Services	603,240	652,070
Food Services	1,832,790	1,913,304
Central Services	658,224	821,966
Pupil Transportation Services	2,680,942	2,801,318
Operation of Plant	3,189,862	3,476,283
Maintenance of Plant	934,689	1,015,762
Administrative Technology Services	440,670	349,062
Community Services	268,191	222,192
Interest on Long-Term Debt	231,433	361,107
Unallocated Depreciation Expense	1,396,871	1,413,971
Total Functions/Program Expenses	41,304,918	44,298,810
Increase (Decrease) in Net Assets	\$ 5,531,419	\$ (484,067)

Governmental Activities, Revenues:



Governmental Activities, Expenses:



The largest revenue source is the State of Florida (73.8 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. FEFP revenues decreased by \$1,401,033, or 6.3 percent, while other State revenues, primarily for acquisition, construction, and maintenance of educational facilities in the form of capital grants and contributions increased by \$4,056,067, or 42.4 percent, from the previous year due mainly to the receipt of funds earmarked for the construction of a new elementary school. This resulted in a net increase in State revenue of \$2,655,034, or 8.3 percent.

Total governmental expenses for the 2008-09 fiscal year decreased by approximately \$3 million from the previous year due mainly to the District reducing its workforce and equipment purchases as a result of State budget cuts. The largest component of these expenses was instructional expenses representing 51.2 percent of total governmental expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund. The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance is \$3,150,760, while the total fund balance is \$5,514,858. The unreserved, undesignated fund balance increased by \$453,569, while the total fund balance increased by \$1,132,809 during the fiscal year. Total expenditures decreased by \$2,500,111, or 6.6 percent, due mainly to a reduction in staff while total revenues decreased by \$719,191 or 2 percent due mainly to State budget cuts.

The Special Revenue – ARRA Economic Stimulus Fund. The ARRA Economic Stimulus Fund has total revenues and expenditures of \$22,891, which were mainly used for instructional staff training. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Capital Projects – Public Education Capital Outlay Fund. The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$1,373,526, all of which is restricted for the acquisition, construction, and maintenance of capital assets. The entire fund balance is encumbered for projects in the subsequent year. The fund balance increased \$1,213,599, primarily due to unspent State revenues from the Class Size Reduction and Classrooms for Kids programs that will be used for the Baker Middle School Classroom Addition project.

The Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$2,388,533. Revenues from local property taxes in this fund totaled \$1,434,862 and interest revenue was \$59,570. Total revenues decreased \$277,164 from the previous year primarily due to a decrease in the property tax millage of 0.25 mills.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance. There were no significant variances between the original and final budgeted amounts.

Actual revenues exceeded final budget amounts by \$965,445, or 2.8 percent, while actual expenditures were \$2,782,218, or 7.3 percent, less than final budget amounts. The actual ending fund balance exceeded the estimated

fund balance in the final amended budget by \$3,689,732. The District was able to decrease total expenditures mainly by closely monitoring expenditures, reducing the workforce, and decreasing equipment acquisitions.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$46,076,640 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Major capital asset events during the current fiscal year included an increase of \$3,017,316 in construction in progress for a classroom addition to Baker County Middle School.

Additional information on the District's capital assets can be found in Notes 4 and 14 to the financial statements.

Long-Term Debt

At June 30, 2009, the District has total long-term debt outstanding of \$8,948,353. This amount is comprised of \$8,323,353 of certificates of participation (COPs) and \$625,000 of bonds payable. During the year, retirement of debt amounted to \$531,667.

The bonds were paid from special State allocations for debt service. There are two separate bond issues, Series 2002B and Series 2005A, maturing in 2015 and 2017, respectively.

Also outstanding at fiscal year-end were two COPs, the Series 2005A and the Series 2005-QZAB, maturing in 2020 and 2021, respectively. COP payments were made from the General Fund and the Capital Projects - Local Capital Improvement Fund provided the resources for the 2005-QZAB sinking fund payment.

Additional information on the District's long-term debt can be found in Notes 5 through 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Baker County School District's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, no increase in State funding is anticipated in the coming year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Executive Director for Support Services, Baker County District School Board, 392 South Boulevard East, Macclenny, Florida 32063.

BASIC FINANCIAL STATEMENTS

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2009**

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 11,902,541.25	\$ 3,172.00
Investments	259,555.60	37,902.00
Prepaid Items	2,399.61	
Due from Other Agencies	1,474,007.05	
Inventories	155,711.67	
Restricted Investment with Fiscal Agent	517,762.20	
Capital Assets:		
Nondepreciable Capital Assets	4,291,236.80	
Depreciable Capital Assets, Net	41,785,402.71	
TOTAL ASSETS	\$ 60,388,616.89	\$ 41,074.00
LIABILITIES		
Salaries and Benefits Payable	\$ 147,907.13	\$
Payroll Deductions and Withholdings	583,400.30	
Accounts Payable	584,671.71	
Construction Contracts Payable	710,612.75	
Construction Contracts Payable - Retainage	391,491.93	
Due to Other Agencies	33,211.92	
Deferred Revenue	829,632.00	
Estimated Insurance Claims Payable	39,782.30	
Long-Term Liabilities:		
Portion Due Within One Year	941,666.67	
Portion Due After One Year	11,668,284.94	
Total Liabilities	15,930,661.65	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	37,128,286.19	
Restricted for:		
State Categorical Programs	318,901.08	
Debt Service	534,053.58	
Capital Projects	4,584,914.53	
Other Purposes	177,662.68	13,931.00
Unrestricted	1,714,137.18	27,143.00
Total Net Assets	44,457,955.24	41,074.00
TOTAL LIABILITIES AND NET ASSETS	\$ 60,388,616.89	\$ 41,074.00

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

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**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 21,151,115.71	\$ 11,544.52	\$	\$
Pupil Personnel Services	2,297,987.77			
Instructional Media Services	622,240.00			
Instruction and Curriculum Development Services	1,081,020.57			
Instructional Staff Training Services	392,663.56			
Instruction Related Technology	201,509.23			
Board of Education	464,999.56			
General Administration	483,671.78			
School Administration	1,870,838.89			
Facilities Acquisition and Construction	501,958.05			4,852,684.31
Fiscal Services	603,239.79			
Food Services	1,832,789.73	767,422.25	1,235,757.11	
Central Services	658,224.20			
Pupil Transportation Services	2,680,942.52		1,336,171.00	
Operation of Plant	3,189,861.79			
Maintenance of Plant	934,689.32			
Administrative Technology Services	440,670.52			
Community Services	268,190.83	354,222.12		
Interest on Long-Term Debt	231,433.19			97,233.87
Unallocated Depreciation Expense	1,396,870.70			
Total Primary Government	\$ 41,304,917.71	\$ 1,133,188.89	\$ 2,571,928.11	\$ 4,949,918.18
Component Unit				
Baker County Education Foundation, Inc.	\$ 49,965.00	\$ 0.00	\$ 645.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Unit</u>
<u>Activities</u>	
\$ (21,139,571.19)	\$
(2,297,987.77)	
(622,240.00)	
(1,081,020.57)	
(392,663.56)	
(201,509.23)	
(464,999.56)	
(483,671.78)	
(1,870,838.89)	
4,350,726.26	
(603,239.79)	
170,389.63	
(658,224.20)	
(1,344,771.52)	
(3,189,861.79)	
(934,689.32)	
(440,670.52)	
86,031.29	
(134,199.32)	
(1,396,870.70)	
<u>(32,649,882.53)</u>	
	<u>(49,320.00)</u>
4,791,928.00	
1,434,861.83	
31,267,984.79	46,187.00
235,971.00	1,125.00
450,556.35	
<u>38,181,301.97</u>	<u>47,312.00</u>
5,531,419.44	(2,008.00)
<u>38,926,535.80</u>	<u>43,082.00</u>
<u>\$ 44,457,955.24</u>	<u>\$ 41,074.00</u>

**BAKER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS			
Cash and Cash Equivalents	\$ 5,548,540.39	\$	\$ 2,471,055.27
Investments	215,256.97		
Prepaid Items	2,399.61		
Due from Other Funds	473,545.41		
Due from Other Agencies		22,891.45	1,335,570.00
Inventories	93,780.31		
Restricted Investment with Fiscal Agent			
TOTAL ASSETS	\$ 6,333,522.69	\$ 22,891.45	\$ 3,806,625.27
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 147,907.13	\$	\$
Payroll Deductions and Withholdings	524,218.21	12.83	
Accounts Payable	113,417.41		390,356.42
Construction Contracts Payable			710,612.75
Construction Contracts Payable - Retainage			301,593.48
Due to Other Funds		22,878.62	200,904.76
Due to Other Agencies	33,121.51		
Deferred Revenue			829,632.00
Total Liabilities	818,664.26	22,891.45	2,433,099.41
Fund Balances:			
Reserved for State Categorical Programs	318,901.08		
Reserved for Encumbrances	24,994.64		1,373,525.86
Reserved for Inventories	93,780.31		
Reserved for Debt Service			
Unreserved:			
Designated, Reported in General Fund:			
Designated for Class Size Reduction	850,000.00		
Designated for Air Conditioner Project at Baker High School	425,000.00		
Designated for Vocational Educational Programs	351,422.23		
Designated for OPEB	300,000.00		
Undesignated, Reported in:			
General Fund	3,150,760.17		
Special Revenue Funds			
Capital Projects Funds			
Total Fund Balances	5,514,858.43		1,373,525.86
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,333,522.69	\$ 22,891.45	\$ 3,806,625.27

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,473,322.03	\$ 1,192,178.58	\$ 11,685,096.27
12,507.71	31,790.92	259,555.60
		2,399.61
		473,545.41
	115,545.60	1,474,007.05
	61,931.36	155,711.67
	517,762.20	517,762.20
<u>\$ 2,485,829.74</u>	<u>\$ 1,919,208.66</u>	<u>\$ 14,568,077.81</u>
\$	\$	\$
	59,169.26	147,907.13
1,478.56	79,419.32	583,400.30
		584,671.71
		710,612.75
89,898.45		391,491.93
5,919.24	243,842.79	473,545.41
	90.41	33,211.92
		829,632.00
<u>97,296.25</u>	<u>382,521.78</u>	<u>3,754,473.15</u>
		318,901.08
	1,200.00	1,399,720.50
	61,931.36	155,711.67
	534,053.58	534,053.58
		850,000.00
		425,000.00
		351,422.23
		300,000.00
		3,150,760.17
	116,646.76	116,646.76
2,388,533.49	822,855.18	3,211,388.67
<u>2,388,533.49</u>	<u>1,536,686.88</u>	<u>10,813,604.66</u>
<u>\$ 2,485,829.74</u>	<u>\$ 1,919,208.66</u>	<u>\$ 14,568,077.81</u>

**BAKER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances - Governmental Funds \$ 10,813,604.66

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 46,076,639.51

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 177,662.68

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

Bonds Payable	\$ 625,000.00	
Certificates of Participation Payable	8,323,353.32	
Compensated Absences Payable	3,321,506.29	
Other Postemployment Benefits Payable	340,092.00	(12,609,951.61)

Total Net Assets - Governmental Activities \$ 44,457,955.24

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

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**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 44,941.09	\$	\$
Federal Through State and Local State	579,648.74	22,891.45	
	29,599,056.25		4,660,244.00
Local:			
Property Taxes	4,791,928.00		
Impact Fees			
Charges for Services	365,766.64		
Miscellaneous	521,871.91		
	Total Revenues	22,891.45	4,660,244.00
	35,903,212.63		
Expenditures			
Current - Education:			
Instruction	19,641,199.92		
Pupil Personnel Services	1,989,433.06		
Instructional Media Services	610,578.07		
Instruction and Curriculum Development Services	717,818.74		
Instructional Staff Training Services	36,040.38	22,068.22	
Instruction Related Technology	197,543.49		
Board of Education	461,847.74		
General Administration	359,066.06	823.23	
School Administration	1,835,869.66		
Facilities Acquisition and Construction	99,601.79		152,523.89
Fiscal Services	593,139.57		
Food Services	3,962.23		
Central Services	638,188.95		
Pupil Transportation Services	2,265,234.00		
Operation of Plant	3,161,902.22		
Maintenance of Plant	924,859.72		
Administrative Technology Services	435,984.12		
Community Services	266,755.88		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	200,393.50		3,017,316.84
Other Capital Outlay	8,608.00		
Debt Service:			
Principal	466,666.67		
Interest and Fiscal Charges	195,883.33		
	Total Expenditures	22,891.45	3,169,840.73
	35,110,577.10		
Excess of Revenues Over Expenditures	792,635.53		1,490,403.27
Other Financing Sources (Uses)			
Transfers In	276,875.81		
Proceeds from Sale of Capital Assets	19,352.59		
Insurance Loss Recoveries	43,944.79		
Transfers Out			(276,804.00)
	Total Other Financing Sources (Uses)		(276,804.00)
	340,173.19		
Net Change in Fund Balances	1,132,808.72		1,213,599.27
Fund Balances, Beginning	4,382,049.71		159,926.59
	Fund Balances, Ending	\$ 0.00	\$ 1,373,525.86
	\$ 5,514,858.43		

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	3,565,425.14	44,941.09
	227,926.41	4,167,965.33
1,434,861.83		34,487,226.66
	89,698.00	6,226,789.83
	767,422.25	89,698.00
59,570.13	21,298.73	1,133,188.89
		602,740.77
<u>1,494,431.96</u>	<u>4,671,770.53</u>	<u>46,752,550.57</u>
	1,166,045.79	20,807,245.71
	272,213.73	2,261,646.79
	571.05	611,149.12
	348,865.79	1,066,684.53
	334,479.41	392,588.01
		197,543.49
		461,847.74
	118,193.80	478,083.09
		1,835,869.66
176,634.39	73,197.98	501,958.05
		593,139.57
	1,828,738.41	1,832,700.64
	15,212.09	653,401.04
	102,170.69	2,367,404.69
	2,087.68	3,163,989.90
		924,859.72
		435,984.12
		266,755.88
14,579.32		3,232,289.66
508,995.00		517,603.00
	65,000.00	531,666.67
	35,549.86	231,433.19
<u>700,208.71</u>	<u>4,362,326.28</u>	<u>43,365,844.27</u>
<u>794,223.25</u>	<u>309,444.25</u>	<u>3,386,706.30</u>
	164,411.00	441,286.81
		19,352.59
		43,944.79
<u>(164,411.00)</u>	<u>(71.81)</u>	<u>(441,286.81)</u>
<u>(164,411.00)</u>	<u>164,339.19</u>	<u>63,297.38</u>
629,812.25	473,783.44	3,450,003.68
<u>1,758,721.24</u>	<u>1,062,903.44</u>	<u>7,363,600.98</u>
\$ <u>2,388,533.49</u>	\$ <u>1,536,686.88</u>	\$ <u>10,813,604.66</u>

**BAKER 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, 2009**

Net Change in Fund Balances - Governmental Funds \$ 3,450,003.68

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 period. 2,068,099.22

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount of repayments in the current period. 531,666.67

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 earned in excess of the amount paid in the current period. (198,747.33)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual method, but in the governmental funds when due. This is the net increase in the other postemployment benefits liability for the current period. (340,092.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. 20,489.20

Change in Net Assets - Governmental Activities \$ 5,531,419.44

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2009**

		Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Premium Revenues	\$	452,757.71
OPERATING EXPENSES		
Insurance Claims		432,737.29
Operating Income		20,020.42
NONOPERATING REVENUES		
Interest		468.78
Change in Net Assets		20,489.20
Total Net Assets - Beginning		157,173.48
Total Net Assets - Ending	\$	177,662.68

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2009**

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Premiums	\$	452,757.71
Cash Payments for Insurance Claims		(434,361.17)
Net Cash Provided by Operating Activities		18,396.54
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		468.78
Cash and Cash Equivalents, Beginning		198,579.66
Cash and Cash Equivalents, Ending	\$	217,444.98
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$	20,020.42
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Decrease in Estimated Insurance Claims Payable		(1,623.88)
Net Cash Provided by Operating Activities	\$	18,396.54

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 641,818.00
Inventory	1,420.00
Accounts Receivable	<u>2,707.00</u>
TOTAL ASSETS	<u>\$ 645,945.00</u>
LIABILITIES	
Accounts Payable	\$ 29,475.00
Internal Accounts Payable	<u>616,470.00</u>
TOTAL LIABILITIES	<u>\$ 645,945.00</u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Baker County School District is considered part of the Florida system of public education. The governing body of the school district is the Baker County District School Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Baker County.

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

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

- **Blended Component Unit.** The BCSB Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. Due to the substantive economic relationship between the Baker County District School Board 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 Unit.** The component unit columns in the government-wide financial statements, include the financial data of the District's other component unit the Baker County Education Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the School Board; to promote education, and to encourage research, learning, and dissemination of information. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit. The Foundation's financial statements are on file in the District's administrative office.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the School District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component units.

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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

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

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

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 – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriation of gross receipts taxes for the District. These funds are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, maintenance, repairs, and site improvements.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for relocatable school buildings

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Proprietary Fund is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating 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 employee health insurance premiums. Operating expenses include insurance claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash and cash equivalents include amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

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

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

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

Investments made locally consist of United States Instrumentality Obligations and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average invoice price, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end physical inventories.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

benefits will result in termination payments. A liability is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical 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 also received allocations under the Classrooms for Kids and Class Size Reduction Programs. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay, Class Size Reduction, and Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

The School 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 Baker County Property Appraiser, and property taxes are collected by the Baker County Tax Collector.

The School Board adopted the 2008 tax levy on September 15, 2008. 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

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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 Baker 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.

➤ **Educational Impact Fees**

Baker County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2006. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not 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. Because the educational impact fee is similar to a capital-type special assessment, it is reported as a program revenue in the government-wide financial statements.

➤ **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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School 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.

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NOTES TO FINANCIAL STATEMENTS
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3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP)	46 Day Average (1)	\$ 1,777,888.98
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	243,264.22
Debt Service Accounts	6 Months	16,291.38
United States Treasury and Agency Obligations -		
FHLB Discount Notes (2)	12-21-09	517,762.20
Total Investments		\$ 2,555,206.78

Note: (1) Investment considered a cash equivalent for financial reporting purposes.

(2) This investment is held under a paying agent agreement in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 5).

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. 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. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA LGIP, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

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- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in United States Instrumentality Obligations is authorized under a forward delivery agreement with the Qualified Zone Academy Bond paying agent. The investments must have a maturity date on or before December 21, 2021. The District's investment in Federal Home Loan Bank Discount Notes was rated A-1+ by Standard & Poor's and P-1 by Moody's Investors Service.

Custodial Credit Risk

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

Concentration Risk

- The District does not have a formal policy that limits the amounts the District may invest in any one issuer. More than 5 percent of the District's investments are in Federal Home Loan Bank Securities. These investments are 20 percent of the District's total investments and 94 percent of the investments in the other governmental funds. This investment is made pursuant to a forward delivery agreement related to the District's Qualified Zone Academy Bonds (See Note 5).

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NOTES TO FINANCIAL STATEMENTS
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4. CHANGE IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,273,919.96	\$	\$	\$ 1,273,919.96
Construction in Progress		3,017,316.84		3,017,316.84
Total Capital Assets Not Being Depreciated	1,273,919.96	3,017,316.84		4,291,236.80
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,322,957.98	14,579.32		3,337,537.30
Buildings and Fixed Equipment	59,633,230.36	200,393.50	98,000.00	59,735,623.86
Furniture, Fixtures, and Equipment	1,049,856.45	8,608.00	12,531.00	1,045,933.45
Motor Vehicles	4,114,586.70	508,995.00	266,796.00	4,356,785.70
Audio Visual Materials and Computer Software	420,442.60			420,442.60
Total Capital Assets Being Depreciated	68,541,074.09	732,575.82	377,327.00	68,896,322.91
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,162,960.80	82,081.38		2,245,042.18
Buildings and Fixed Equipment	19,833,281.77	1,206,189.46	98,000.00	20,941,471.23
Furniture, Fixtures, and Equipment	876,492.29	75,838.38	12,531.00	939,799.67
Motor Vehicles	2,573,671.26	284,922.74	266,796.00	2,591,798.00
Audio Visual Materials and Computer Software	360,047.64	32,761.48		392,809.12
Total Accumulated Depreciation	25,806,453.76	1,681,793.44	377,327.00	27,110,920.20
Total Capital Assets Being Depreciated, Net	42,734,620.33	(949,217.62)		41,785,402.71
Governmental Activities Capital Assets, Net	\$ 44,008,540.29	\$ 2,068,099.22	\$ 0.00	\$ 46,076,639.51

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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 284,922.74
Unallocated	1,396,870.70
Total Depreciation Expense - Governmental Activities	\$ 1,681,793.44

5. CERTIFICATES OF PARTICIPATION

Certificates of Participation at June 30, 2009, are as follows:

Series	Original Amount	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
Series 2005A	\$ 7,000,000	\$ 5,133,333.32	3.65	2020
Series 2005-QZAB	3,190,020	3,190,020.00	(1)	2021
Total Certificates of Participation	\$ 10,190,020	\$ 8,323,353.32		

Note (1): Interest on this debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holder of the QZABs. The rate of return to the holders was established by the United States Government at the time of the sale.

The District entered into a financing arrangement on March 1, 2005, which arrangement was characterized as a lease purchase agreement, with the BCSB Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, improvements, and equipment.

The financing was accomplished through the issuance of Certificates of Participation by the Leasing Corporation to third-party investors to be repaid from the proceeds of rents paid by the District.

Series 2005A Certificates. The District secured financing of a prekindergarten through kindergarten educational facility in the total amount of \$7,000,000 through the issuance of Master Lease Program Obligations, Series 2005A. As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The initial term of the lease is 20 years commencing on March 1, 2005. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Series 2005A, Ground Lease Agreement for the benefit of the securers of the Certificates.

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The District properties included in the Series 2005A ground lease under this arrangement include portions of land underlying the Pre-K/Kindergarten Center building and related property together with premises rights on the servient property.

Series 2005-QZAB Certificates. The Series 2005-Qualified Zone Academy Bonds (QZAB) Certificates were issued under a special program whereby the certificates, bearing an original issue date of December 21, 2005, will mature in full on December 21, 2021, for the original \$3,190,020 issue amount. There is no interest cost for borrowing moneys under this program. The financing proceeds were used for facilities upgrades, safety improvements, transportation equipment, and technology improvements at several designated schools, which are leased by the District from the Leasing Corporation. The schools designated for the improvements and equipment include Baker County Middle, Westside Elementary, Keller Intermediate, and Macclenny Elementary Schools. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$164,411 are required for 16 consecutive years beginning December 21, 2006. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with the accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the certificates mature. The Series 2005-QZAB issue is secured by the assets held under the trust agreement in the event of cancellation or default. The financing proceeds were designated for the following equipment and improvements: facilities upgrades, safety improvements, transportation equipment, and technology improvements at the four designated schools.

Minimum Lease Payments. With the exception of the Series 2005-QZAB issue as discussed above, lease payments are payable by the District semiannually, on July 15 and January 15, at an interest rate of 3.65 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 654,033.33	\$ 466,666.67	\$ 187,366.66
2011	637,000.01	466,666.67	170,333.34
2012	619,966.67	466,666.67	153,300.00
2013	602,933.33	466,666.67	136,266.66
2014	585,899.91	466,666.67	119,233.24
2015-2019	2,674,000.01	2,333,333.35	340,666.66
2020	483,700.01	466,666.62	17,033.39
Total Minimum Lease Payments	<u><u>\$ 6,257,533.27</u></u>	<u><u>\$ 5,133,333.32</u></u>	<u><u>\$ 1,124,199.95</u></u>

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6. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	\$ 160,000	4.000 - 5.375	2015
Series 2005A	465,000	5.0	2017
Total Bonds Payable	\$ 625,000		

These 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 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 State Board of Education and the State Board of Administration.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Prinicpal	Interest
State School Bonds:			
2010	\$ 106,437.50	\$ 75,000.00	\$ 31,437.50
2011	107,593.75	80,000.00	27,593.75
2012	113,500.00	90,000.00	23,500.00
2013	109,300.00	90,000.00	19,300.00
2014	114,687.50	100,000.00	14,687.50
2015-2017	205,075.00	190,000.00	15,075.00
Total	\$ 756,593.75	\$ 625,000.00	\$ 131,593.75

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NOTES TO FINANCIAL STATEMENTS
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7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 690,000.00	\$	\$ 65,000.00	\$ 625,000.00	\$ 75,000.00
Certificates of Participation Payable	8,790,019.99		466,666.67	8,323,353.32	466,666.67
Compensated Absences Payable	3,122,758.96	411,869.99	213,122.66	3,321,506.29	400,000.00
Other Postemployment Benefits Payable		340,092.00		340,092.00	
Total Governmental Activities	\$ 12,602,778.95	\$ 751,961.99	\$ 744,789.33	\$ 12,609,951.61	\$ 941,666.67

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

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 473,545.41	\$
Special Revenue:		
ARRA Economic Stimulus		22,878.62
Capital Projects:		
Public Education Capital Outlay		200,904.76
Local Capital Improvement		5,919.24
Nonmajor Governmental		243,842.79
Total	\$ 473,545.41	\$ 473,545.41

These interfund amounts primarily represent loans to cover temporary cash deficits in pooled accounts and expenditures incurred prior to reimbursement from outside parties. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 276,875.81	\$
Capital Projects:		
Public Education Capital Outlay		276,804.00
Local Capital Improvement		164,411.00
Nonmajor Governmental	164,411.00	71.81
Total	<u>\$ 441,286.81</u>	<u>\$ 441,286.81</u>

These transfers were to move restricted revenues to offset eligible expenditures in the General Fund, and to transfer funds to cover debt service requirements.

9. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2008-09 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 20,875,584.00
Categorical Educational Programs:	
Class Size Reduction	5,046,993.00
Transportation	1,336,171.00
Instructional Materials	518,083.00
School Recognition	207,255.00
Florida Teachers Lead	67,694.00
Class Size Reduction Construction	3,133,531.00
Classrooms for Kids	1,105,938.00
Gross Receipts Tax (Public Education Capital Outlay)	420,775.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	199,976.18
Workforce Development Program	187,292.00
Discretionary Lottery Funds	117,625.00
Food Service Supplement	30,172.00
Mobile Home License Tax	11,138.68
Miscellaneous	1,228,998.80
Total	<u>\$ 34,487,226.66</u>

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

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11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.103	\$ 4,552,368.68
Basic Discretionary Local Effort	0.498	444,264.08
Supplemental Discretionary Local Effort	0.250	223,024.14
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	1,561,168.96
Total	7.601	\$ 6,780,825.86

12. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military 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, and death benefits and annual cost-of-living adjustments.

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

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As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 49 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$149,853.70.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$2,120,155.19, \$2,271,540.04, and \$2,152,915.91, respectively, which were equal to the required contributions for each fiscal year.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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13. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$8,315,656 at the June 30, 2009, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the other postemployment benefits liability at the date of transition.

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, dental, and life insurance coverages. The District subsidizes the premium rates paid by retirees by allowing them to participate in the 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 plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval on July 16, 2007. Under this incentive, retirees receive contributions based on their years of service ranging from \$169.81 per month for 10 to 19 years of service, to \$212.56 per month for 30 years or more of service. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District and plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. The District provided required contributions of \$376,015 toward the annual OPEB cost, net of retiree contributions totaling \$117,265.56, which represents 0.5 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 Governmental Accounting Standards Board 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 year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for other postemployment benefits:

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Description	Amount
Normal Cost (service cost for one year)	\$ 438,918
Amortization of Unfunded Actuarial Accrued Liability	277,189
Interest on Normal Cost and Amortization	716,107
Annual Required Contribution	716,107
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	(376,015)
Annual OPEB Cost (Expense)	716,107
Contribution Toward the OPEB Cost	(376,015)
Increase in Net OPEB Obligation	340,092
Net OPEB Obligation, Beginning of Year	340,092
Net OPEB Obligation, End of Year	\$ 340,092

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 (first year of implementation), were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	\$ 0	0.0%	\$ 0
2008-09	716,107	52.5%	340,092

Funded Status and Funding Progress. As of June 30, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$8,315,656, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,315,656 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,999,314 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.2 percent.

Actuarial valuations of an ongoing 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 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 plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive 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 initial OPEB actuarial valuation as of June 30, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2009, and to estimate the District’s 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.5 percent initially for the 2008-09 fiscal year, reduced by various decrements every ten years, to an ultimate rate of 4.9 percent after sixty years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

14. CONSTRUCTION CONTRACT COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Baker County Middle School Classroom Addition: Contractor	<u>\$ 4,090,095.95</u>	<u>\$ 3,015,934.89</u>	<u>\$ 1,074,161.06</u>

15. RISK MANAGEMENT PROGRAMS

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

The Board contracted with a commercial insurance company to provide employee group health insurance. In addition, the Board established self-insurer plans to provide District employees with supplemental dental, hospital indemnity, disability, and vision coverage. The dental and hospital indemnity plans are for District employees and retirees, and their dependents, and the disability and vision plans are for District employees. The plans are administered through an internal service fund. Under the dental, hospital indemnity, and vision plans, the Board contributes employee premiums as a fringe benefit. The Board also contributes specified amounts for qualifying retirees to the hospital indemnity plan. Employee dependent coverage and other coverage for retirees and their dependents are by prepaid premium.

The claims liability of \$39,782.30 is reported in the internal service fund at June 30, 2009, to cover estimated incurred, but not reported, insurance claims payable of the employee supplemental insurance plans. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2007-08	\$ 51,325.69	\$ 436,938.41	\$ (446,857.92)	\$ 41,406.18
2008-09	41,406.18	432,737.29	(434,361.17)	39,782.30

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**BAKER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 40,000.00	\$ 44,941.09	\$ 4,941.09
Federal Through State and Local State	120,000.00	120,000.00	579,648.74	459,648.74
State	29,560,268.01	29,289,268.01	29,599,056.25	309,788.24
Local:				
Property Taxes	4,948,500.00	4,948,500.00	4,791,928.00	(156,572.00)
Charges for Services	240,000.00	240,000.00	365,766.64	125,766.64
Miscellaneous	300,000.00	300,000.00	521,871.91	221,871.91
Total Revenues	35,208,768.01	34,937,768.01	35,903,212.63	965,444.62
Expenditures				
Current - Education:				
Instruction	20,916,245.21	20,636,637.21	19,641,199.92	995,437.29
Pupil Personnel Services	2,090,159.59	2,140,159.59	1,989,433.06	150,726.53
Instructional Media Services	595,698.64	675,698.64	610,578.07	65,120.57
Instruction and Curriculum Development Services	688,509.52	838,509.52	717,818.74	120,690.78
Instructional Staff Training Services	175,902.83	175,902.83	36,040.38	139,862.45
Instruction Related Technology	225,829.49	225,829.49	197,543.49	28,286.00
Board of Education	398,283.70	518,283.70	461,847.74	56,435.96
General Administration	411,597.23	411,597.23	359,066.06	52,531.17
School Administration	1,993,383.06	1,993,383.06	1,835,869.66	157,513.40
Facilities Acquisition and Construction	130,550.08	105,156.58	99,601.79	5,554.79
Fiscal Services	651,888.44	651,888.44	593,139.57	58,748.87
Food Services		8,000.00	3,962.23	4,037.77
Central Services	715,123.50	715,123.50	638,188.95	76,934.55
Pupil Transportation Services	2,643,419.06	2,643,419.06	2,265,234.00	378,185.06
Operation of Plant	3,839,826.36	3,251,826.36	3,161,902.22	89,924.14
Maintenance of Plant	1,137,319.81	1,137,319.81	924,859.72	212,460.09
Administrative Technology Services	615,552.28	615,552.28	435,984.12	179,568.16
Community Services	271,956.35	276,956.35	266,755.88	10,200.47
Fixed Capital Outlay:				
Facilities Acquisition and Construction		200,393.50	200,393.50	
Other Capital Outlay		8,608.00	8,608.00	
Debt Service:				
Principal	466,666.67	466,666.67	466,666.67	
Interest and Fiscal Charges	195,883.33	195,883.33	195,883.33	
Total Expenditures	38,163,795.15	37,892,795.15	35,110,577.10	2,782,218.05
Excess (Deficiency) of Revenues Over Expenditures	(2,955,027.14)	(2,955,027.14)	792,635.53	3,747,662.67
Other Financing Sources (Uses)				
Transfers In	431,904.00	431,904.00	276,875.81	(155,028.19)
Proceeds from Sale of Capital Assets			19,352.59	19,352.59
Insurance Loss Recoveries			43,944.79	43,944.79
Transfers Out	(33,800.00)	(33,800.00)		33,800.00
Total Other Financing Sources (Uses)	398,104.00	398,104.00	340,173.19	(57,930.81)
Net Change in Fund Balances	(2,556,923.14)	(2,556,923.14)	1,132,808.72	3,689,731.86
Fund Balances, Beginning	4,382,049.71	4,382,049.71	4,382,049.71	
Fund Balances, Ending	\$ 1,825,126.57	\$ 1,825,126.57	\$ 5,514,858.43	\$ 3,689,731.86

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$ 789,418.00	\$ 22,891.45	\$ (766,526.55)
	<u>789,418.00</u>	<u>22,891.45</u>	<u>(766,526.55)</u>
	313,732.57		313,732.57
	281,643.00		281,643.00
	42,007.00		42,007.00
	24,605.00	22,068.22	2,536.78
	42,430.43	823.23	41,607.20
	5,000.00		5,000.00
	80,000.00		80,000.00
	<u>789,418.00</u>	<u>22,891.45</u>	<u>766,526.55</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**BAKER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN
For the Fiscal Year Ended June 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2009	\$ 0	\$ 8,315,656	\$ 8,315,656	0.0%	\$ 22,999,314	36.2%

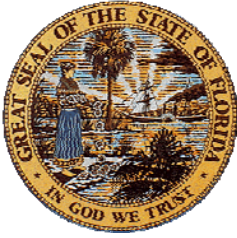
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 239,021.63
National School Lunch Program	10.555	300	843,068.84
Summer Food Service Program for Children	10.559	323	17,504.55
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	103,447.54
Total Child Nutrition Cluster			1,203,042.56
Florida Department of Banking and Finance:			
Secure Payments for States and Counties Containing Federal Lands	10.665	None	175,008.00
Total United States Department of Agriculture			1,378,050.56
United States Department of Labor:			
Indirect:			
First Coast Workforce Development, Inc.:			
WIA Youth Activities	17.259	None	75,523.32
ARRA - WIA Youth Activities	17.259	None	40,019.68
Total United States Department of Labor			115,543.00
United States Department of Education:			
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027	263	962,328.11
Special Education - Preschool Grants	84.173	267	44,876.27
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	10,120.00
Total Special Education Cluster			1,017,324.38
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 228	745,154.55
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	12,771.45
Total Title I, Part A Cluster			757,926.00
Adult Education - Basic Grants to States	84.002	191	52,115.58
Career and Technical Education - Basic Grants to States	84.048	161	107,308.30
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	15,484.00
Twenty-First Century Community Learning Centers	84.287	244	194,395.19
Education Technology State Grants	84.318	121	9,180.00
Improving Teacher Quality State Grants	84.367	224	228,998.03
Total United States Department of Education			2,382,731.48
United States Department of Homeland Security:			
Indirect:			
Florida Division of Emergency Management:			
Hazard Mitigation Grant	97.039	None	154,058.00
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	44,941.09
Total Expenditures of Federal Awards			\$ 4,075,324.13

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. Represents the amount of donated food used during the fiscal year. Commodities are valued at fair value as determined at the time of donation.



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Baker County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to material weaknesses, as defined above.

Compliance and Other Matters

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

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

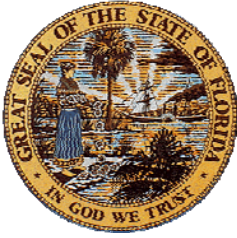
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
January 15, 2010



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Baker County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

Respectfully submitted,



David W. Martin, CPA
January 15, 2010

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391); and Title I, Part A Cluster (CFDA No. 84.010 and 84.389)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

ADDITIONAL MATTERS

Finding No. 1: Information Technology – Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

As similarly noted in our report No. 2009-099, the District lacked written policies and procedures for certain IT functions. In response to our prior audit, the District established written policies and procedures for some of the functions noted; however, the District continued to lack written policies and procedures for the following IT functions:

- Reviewing user identification codes (IDs) and associated access privileges.
- Defining network, system, and database administration responsibilities.
- Granting least privilege for service and application accounts.
- Prohibiting administrator rights on workstations of end users.
- Defining access privileges and responsibilities of end-user support staff.
- Revoking access privileges of former consultants and vendors.

Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

Recommendation: The District should continue its efforts to establish written policies and procedures to document management's expectations for the performance of the above-listed IT functions.

Finding No. 2: Information Technology – Removal of Access Privileges

Effective management of system access privileges includes the timely removal of employee access privileges when employees terminate. Prompt action is necessary to ensure that a former employee's access privileges are not misused by the former employee or others. The District did not remove the access privileges of certain former employees in a timely manner. Nineteen of 34 user IDs included in our test remained active in the network directory service from 52 to 251 days after the employees' separation dates. A similar finding was disclosed in our report No. 2009-099. Without timely deletion of former employees' access, the risk is increased that access privileges could be misused by the former employee or others.

Recommendation: The District should promptly remove the access privileges of former employees to minimize the risk that the access privileges could be used to compromise District data or IT resources.

Finding No. 3: Information Technology – Change Controls

Effective controls over changes to application programs and systems are intended to ensure that only authorized and properly functioning changes are implemented. Program change controls include procedures to ensure that all changes are properly authorized, tested, and approved for implementation. Program change controls that are typically employed to ensure the continued integrity of application systems include providing written evidence of the program change process and restricting programmers from accessing or updating production programs and data.

As similarly noted in our report No. 2009-099, the District did not have a formal program change methodology, had not maintained documentation of the program change process, and had not restricted programmers from accessing or updating production programs and data. Without effective program change controls, the risk is increased that unauthorized or erroneous programs, including changes or patches, could be moved into the production environment without timely detection.

Recommendation: The District should implement a formal program change methodology that includes maintaining written evidence of the program change process and should restrict programmers from accessing or updating production programs and data.

Finding No. 4: Information Technology – Data Classification

Application access and authorization controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. A key element of a comprehensive plan for application access and authorization controls is data classification. As similarly noted in our report No. 2009-099, the District had not classified its data according to sensitivity or level of significance. The lack of data classification increases the risk of inappropriate access and unauthorized use, disclosure, or modification of data and IT resources.

Recommendation: The District should improve its application access and authorization controls by classifying its data.

Finding No. 5: Information Technology – Logging and Review

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2009-099, certain controls related to logging and review needed improvement. We are not disclosing specific details of the issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issue. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should implement appropriate controls related to logging and review to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Title I Grants to Local Educational Agencies (CFDA No. 84.010)**Finding Type:** Noncompliance**Questioned Costs:** Not Applicable

Special Tests and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, Code of Federal Regulations, requires that school districts ensure that all public elementary and secondary school teachers who teach core academic subjects in a program supported with the Title I funds, such as Title I schoolwide programs, be highly qualified (HQ). Title 34, Section 200.56, Code of Federal Regulations, stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be HQ.

Our tests of District records evidencing the qualifications of six Title I teachers disclosed two teachers who did not meet the requirements to be HQ for the core academic subject they were teaching. District records indicate that the teachers were HQ in certain subjects, but because of staffing limitations, the District transferred these teachers to other subjects for which they were not HQ. According to the HQ strategies outlined by the District in the Title I program application, plans have been made to assist teachers in becoming highly qualified by the 2009-10 fiscal year. Having highly qualified staff would enhance the District's ability to provide the required instructional services to Title I students and contribute toward meeting the adequate yearly progress standards set by the United States Department of Education.

Recommendation: **The District should enhance procedures to ensure that all teachers hired to teach core academic subjects in Title I funded schools meet the highly qualified requirements.**

District Contact Person: Susan Voorhees, Director of Accountability and Special Programs

Federal Awards Finding No. 2:**Federal Agency:** United States Department of Agriculture, United State Department of Labor, and United States Department of Education**Pass-Through Entity:** Florida Department of Education and First Coast Workforce Development, Inc.**Programs:** ARRA: Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); WIA Youth Activities (CFDA No. 17.259); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education, Grants to States, Recovery Act (CFDA No. 84.391); Special Education Preschool, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization, Recovery Act (CFDA Nos. 84.394 and 84.397)**Finding Type:** Noncompliance**Questioned Costs:** Not Applicable

Reporting and Special Tests and Provisions. The American Recovery and Reinvestment Act (ARRA) provides funding, in part, to school districts, with the overall goals of improving schools and achievement and producing better results for students. To support the most effective use of the funds and measure results, recipients are required to report certain information tied to the assurance, principles, and strategies associated with ARRA Federal programs. The United States Federal Government maintains a database, known as the Central Contractor Registration (CCR), to collect, validate, store, and disseminate information relating to Federal awards, including ARRA Federal programs.

Both current and potential Federal recipients are required to register in CCR in order to receive Federal grant awards. Recipients are required to initially register in CCR to provide basic information relevant to procurement and financial transactions, and must update or renew their registration at least once per year to maintain an active status.

The Florida Department of Education (FDOE) approved ARRA Federal funding, totaling \$3,328,919, for the District to administer, as shown in the table below:

Grant (CFDA Number)	Award Amount
ARRA – Child Nutrition Discretionary (10.579)	\$ 47,822
ARRA – WIA Youth Activities (17.259)	60,000
ARRA – Title I (84.389)	459,004
ARRA – Special Education (84.391)	1,085,648
ARRA – Special Education Preschool (84.392)	34,183
ARRA – State Fiscal Stabilization (84.394)	1,571,254
ARRA – State Fiscal Stabilization (84.397)	71,008

District records indicated that the award periods for these grants started on dates ranging from April 2009 through June 2009, and the grant periods ended on dates ranging from August 2009 through September 2011. Our review of District records and inquiry with District personnel disclosed that while the District had previously registered with CCR, this registration expired on December 12, 2008, because it had not been updated or renewed. Subsequent to our inquiries, the District designated the Executive Director for Support Services to monitor the ARRA Federal reporting requirements and, on November 25, 2009, renewed its registration with CCR. Without timely renewal in the CCR system, the District may be limited in its eligibility to receive ARRA Federal funds.

Recommendation: The District should continue its efforts to ensure timely renewal of the registration at the Central Contractor Registration website on an annual basis as required.

District Contact Person: Marcelle Richardson, Executive Director for Support Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-099.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*BAKER COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009*

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
2008-073 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)/Special Tests and Provisions - Highly Qualified Teachers	Three teachers providing services in schoolwide program schools did not meet the highly qualified requirements because they did not maintain Florida teaching certificates in the core academic areas they were teaching, resulting in \$124,247.15 of questioned costs.	Partially corrected	Questioned costs are pending final determination from the grantor agency.
2009-099 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173)/ Allowable Costs/ Cost Principles - Compensation of Personnel Services	Ten employees working on multiple activities or cost objectives whose salaries and benefits included \$310,435.26 paid from the Special Education program did not maintain monthly personnel activity reports to document the allocation of time to the Special Education program.	Corrected	Monthly personnel activity reports were maintained for employees working on multiple activities or cost objectives in the subsequent year.
2009-099 (2)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)/Special Tests and Provisions - Competitive Food Sales	Contrary to Federal regulations, State Board of Education rules, and Board policy, vending machines containing carbonated beverages, but not 100 percent fruit juice beverages, were available to students throughout the school day.	Corrected	The vending machines are no longer available to students throughout the school day.

EXHIBIT A
MANAGEMENT’S RESPONSE



Baker County Public Schools

392 South Boulevard East
Macclenny, Florida 32063

Telephone: (904) 259-6251 www.baker.k12.fl.us Fax: (904) 259-2825

Sherrie Raulerson
Superintendent of Schools
"Where Children Are First!"



January 15, 2010

Honorable David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. Martin:

In response to the preliminary and tentative audit findings for the Baker County District School Board for the fiscal year ending June 30, 2009, we would like to make the following statements:

Finding No. 1: Information Technology – Written Policies and Procedures

The District will continue its efforts to establish written policies and procedures to document management’s expectations for the performance of IT Functions.

Finding No. 2: Information Technology – Removal of Access Privileges

New procedures have been implemented to ensure the timely removal of access privileges of former employees.

Finding Nos. 3 & 4: Information Technology – Change Controls & Data Classification

The District has converted to new software that is now housed with the Northeast Florida Education Consortium. We no longer have access to update the production programs and data. The new software has better controls over the application access and authorization controls.

Finding No. 5: Information Technology – Logging and Review

Noted.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No.1: Special Tests and Provisions – Highly Qualified Teachers

Every effort is made to hire teachers who meet the Highly Qualified Regulation. Currently all teachers within Title I schools meet the Highly Qualified criteria.

“Preparing individuals to be lifelong learners, self-sufficient and responsible citizens of good character”

DISTRICT SCHOOL BOARD MEMBERS

Earl Dwight Crews
District 1

Richard Daan Griffis
District 2

Karen Ferry McCollum
District 3

James Paul Raulerson
District 4

Patricia C. Weeks
District 5

AN EQUAL ACCESS/EQUAL OPPORTUNITY INSTITUTION

Federal Awards Finding No. 2: Reporting and Special Tests and Provisions
Noted.

It has been a pleasure to work with Ms. Cathy Bandy and her staff from the Lake City Audit Section. We would like to thank them for their assistance and technical advice during the audit and for pointing out areas our district can improve upon.

If you have any questions or need further assistance, please contact me.

Sincerely,



Sherrie Raulerson
Superintendent of Schools