

LIBERTY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
James E. Flowers to 11-17-08	1
Logan Kever from 11-18-08	1
Thomas W. Duggar Sr.	2
Darrel Hayes, Vice Chair	3
Kyle Peddie, Chair	4
Roger Reddick	5

David H. Summers, Superintendent to 11-17-08
Dr. Sue Summers, Superintendent from 11-18-08

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 Nicole W. Ostrowski, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, 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.

**LIBERTY COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies as summarized below. However, these significant deficiencies are not considered 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.

SIGNIFICANT DEFICIENCIES

Finding No. 1: Improvements are needed in District procedures to ensure that account balances are properly reported on the financial statements.

Finding No. 2: The District's management of information technology (IT) access privileges needed improvement.

Finding No. 3: Enhancements could be made to the payroll bank account reconciliations.

ADDITIONAL MATTERS

Finding No. 4: The District did not timely delete the former Superintendent's name from its wire transfer agreement, which allowed him the authority to make changes to the District's investment account beyond his termination date.

Finding No. 5: The District's Computer Disaster Plan had not been tested.

Finding No. 6: The District had not implemented a comprehensive ongoing security awareness training program to protect IT resources.

Finding No. 7: The District could strengthen its controls over tangible personal property.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, Special Education Cluster, Twenty-First Century, and Secure Payments for States and Counties 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, with the exception of the Title I program. We noted compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: District procedures could be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and used at, schools with the greatest need.

Federal Awards Finding No. 2: Contrary to the Special Education grant award, 11 employees were paid from the grant for unallowable services, resulting in questioned costs, totaling \$32,075.42.

Federal Awards Finding No. 3: Enhancements could be made to ensure the required corrective action is properly implemented for schools in need of improvement.

Federal Awards Finding No. 4: The District had not implemented adequate controls to ensure the accountability and safeguarding of the District's tangible personal property which impact the major Federal programs.

Audit Objectives and Scope

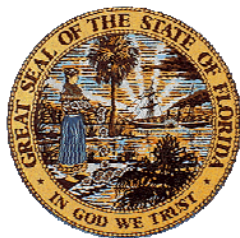
Our audit objectives were to determine whether the Liberty County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2009-128.

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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111 West Madison Street
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty 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 46 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report 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 report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Liberty County District School Board as of June 30, 2009, and the respective changes in financial position 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 Liberty 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 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 38 and 39) 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
February 5, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Liberty County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 37.

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$12,507,880.44, which may be compared to the increase of \$1,744,700.94 in the previous year.
- General revenues total \$13,530,010.26, or 47 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$15,076,018.57, or 53 percent.
- Expenses total \$16,098,148.39; only \$15,076,018.57 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceed total expenses by \$12,507,880.44.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$1,147,092.51 at June 30, 2009.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to financial statements.

In addition to the basic financial statements, management's discussion and analysis, and the budgetary comparison schedule are included as required supplementary information.

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.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and

the State's education finance program finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base and student enrollment.

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 two 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, Capital Projects – Public Education Capital Outlay Fund, and 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 Fund to demonstrate compliance with the budget.

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	
	6-30-09	6-30-08
Current Assets	\$ 7,561,005.64	\$ 3,934,161.20
Capital Assets	28,176,126.43	16,384,835.06
Total Assets	35,737,132.07	20,318,996.26
Long-Term Liabilities	2,169,998.82	1,192,343.06
Other Liabilities	2,615,227.76	682,628.15
Total Liabilities	4,785,226.58	1,874,971.21
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	27,788,126.43	15,919,835.06
Restricted	2,777,658.23	1,367,351.08
Unrestricted	386,120.83	1,156,838.91
Total Net Assets	\$ 30,951,905.49	\$ 18,444,025.05

The largest portion of the District's net assets (90 percent) reflects its investment in capital assets (e.g., land, buildings, furniture, fixtures, and equipment), less any related debt used to acquire those assets that is still outstanding. The purpose of these capital assets is to educate the students residing in the County; thus, these assets are not available for future spending. The resources needed to repay the capital asset related debt must come from other sources, as the capital assets themselves are not available for debt liquidation.

A portion of the net assets (9 percent) represents resources that are subject to external restrictions. The unrestricted net assets (1 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	\$ 384,889.15	\$ 400,018.48
Operating Grants and Contributions	811,569.52	796,849.11
Capital Grants and Contributions	13,879,559.90	2,617,236.79
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,509,181.00	1,411,054.90
Property Taxes, Levied for Capital Projects	438,086.85	505,889.19
Grants and Contributions Not Restricted to Specific Programs	11,379,354.89	11,661,030.40
Unrestricted Investment Earnings	22,827.35	148,308.76
Miscellaneous	180,560.17	13,273.27
Total Revenues	28,606,028.83	17,553,660.90
Functions/Program Expenses:		
Instruction	8,436,978.94	8,475,523.47
Pupil Personnel Services	399,137.63	343,920.26
Instructional Media Services	119,019.54	172,664.50
Instruction and Curriculum Development Services	431,220.54	763,927.38
Instructional Staff Training Services	317,031.77	245,437.23
Instruction Related Technology	144,638.75	132,787.80
Board of Education	366,578.02	356,894.79
General Administration	284,642.37	341,568.42
School Administration	571,994.47	552,199.05
Facilities Acquisition and Construction	273,900.75	35,259.62
Fiscal Services	270,766.40	269,132.74
Food Services	741,698.10	754,041.19
Central Services	1,991.16	4,606.20
Pupil Transportation Services	697,094.27	759,920.12
Operation of Plant	1,165,219.35	1,111,300.99
Maintenance of Plant	207,311.21	199,833.97
Administrative Technology Services	323,783.89	283,035.36
Community Services	586,853.63	294,438.30
Interest on Long-Term Debt	21,388.00	25,040.47
Unallocated Depreciation Expense	721,082.27	687,428.10
Loss on Disposal of Capital Assets	15,817.33	
Total Functions/Program Expense	16,098,148.39	15,808,959.96
Increase in Net Assets	\$ 12,507,880.44	\$ 1,744,700.94

The largest revenue source is the State of Florida (81 percent). State revenue increased by \$10,413,691.03 due primarily to the receipt of Special Public Education Capital Outlay appropriations for the Hosford Elementary and Jr. High School classroom additions project. 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.

Instruction expenses represent 52 percent of total governmental expenses in the 2008-09 fiscal year. When compared to the prior year, instruction expenses were fairly consistent.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The focus of the District's governmental funds is to provide information on near-term, outflows and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$4,945,777.88, an increase of \$1,694,244.83 over the prior year. Approximately 54 percent of this total amount, or \$2,668,170.76, represents unreserved fund balances. The remainder is reserved due to previous commitments for debt service totaling \$73,524.17, encumbrances totaling \$2,096,380.77, and State categorical programs totaling \$107,702.18.

The General Fund is the primary operating fund. At current fiscal year-end, the General Fund unreserved fund balance is \$1,147,092.51, while the total fund balance is \$1,254,794.69. As a measure of General Fund liquidity, it may be useful to compare fund balances to total expenditures. The unreserved fund balance is 9 percent of total General Fund expenditures.

The fund balance of the District's General Fund decreased by \$600,479.10 during the current fiscal year. This was primarily due to a decrease of \$713,697 in FEFP revenues as a result of decline in State funding.

The Capital Projects – Public Education Capital Outlay Fund has a total ending fund balance of \$2,553,872.11 representing an increase of \$2,385,365.58 over the previous fiscal year. This increase is due to unspent Special Public Education Capital Outlay appropriations, of which \$2,096,380.77 is encumbered for the Hosford Elementary and Jr. High School classroom additions project.

The Capital Projects – Local Capital Improvement Fund has a total ending fund balance of \$896,906.13, representing an increase of \$391,990.06 over the previous fiscal year. The increase is due to unspent property tax collections.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total appropriations and other financing uses amounting to \$294,952.03, or 2 percent. During the same period, final budget revenues and other financing sources were less than the original budgeted amounts by the same amount. The final budgeted ending fund balance was \$626,387.45.

Actual revenues and other financing sources were \$168,647.54 less than the final budgeted amounts and actual expenditures and other financing uses were \$797,054.78 less than the final budgeted amounts. Actual expenditures were less than final budgeted expenditures because planned salary step increases were not provided and material and equipment purchases were lower due to State funding reductions. Positive budget variances occurred in all functions. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$628,407.24.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, for the governmental activities as of June 30, 2009, amounted to \$28,176,126.43. The investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles. During the 2008-09 fiscal year, the District continued work on the addition at Hosford Elementary and Jr. High 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 had total long-term debt outstanding of \$388,000. The full amount is comprised of State School and District Revenue Bonds. During the year, retirement of debt amounted to \$77,000. The District also has a Special Public Education Capital Outlay Advance Payable of \$887,338.05. Additional information on the District's long-term debt can be found in Notes 5 through 7 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Liberty County District School Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Liberty County District School Board, P. O. Box 429, Bristol, FL 32321.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 7,419,612.00
Investments	60,177.62
Due from Other Agencies	44,927.62
Inventories	36,288.40
Capital Assets:	
Nondepreciable Capital Assets	12,745,633.34
Depreciable Capital Assets, Net	15,430,493.09
TOTAL ASSETS	\$ 35,737,132.07
LIABILITIES	
Payroll Deductions and Withholdings	\$ 218,106.11
Accounts Payable	30,017.84
Construction Contracts Payable	601,696.66
Construction Contracts Payable - Retainage	752,026.87
Due to Other Agencies	1,013,351.92
Deposits Payable	28.36
Long-Term Liabilities:	
Portion Due Within One Year	368,627.16
Portion Due After One Year	1,801,371.66
Total Liabilities	4,785,226.58
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	27,788,126.43
Restricted for:	
State Categorical Programs	107,702.18
Debt Service	73,524.17
Capital Projects	2,596,431.88
Unrestricted	386,120.83
Total Net Assets	30,951,905.49
TOTAL LIABILITIES AND NET ASSETS	\$ 35,737,132.07

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 8,436,978.94	\$ 150,638.63	\$	\$	\$ (8,286,340.31)
Pupil Personnel Services	399,137.63				(399,137.63)
Instructional Media Services	119,019.54				(119,019.54)
Instruction and Curriculum Development Services	431,220.54				(431,220.54)
Instructional Staff Training Services	317,031.77				(317,031.77)
Instruction Related Technology	144,638.75				(144,638.75)
Board of Education	366,578.02				(366,578.02)
General Administration	284,642.37				(284,642.37)
School Administration	571,994.47				(571,994.47)
Facilities Acquisition and Construction	273,900.75			13,676,816.88	13,402,916.13
Fiscal Services	270,766.40				(270,766.40)
Food Services	741,698.10	234,250.52	484,574.52		(22,873.06)
Central Services	1,991.16				(1,991.16)
Pupil Transportation Services	697,094.27		326,995.00		(370,099.27)
Operation of Plant	1,165,219.35				(1,165,219.35)
Maintenance of Plant	207,311.21			94,664.00	(112,647.21)
Administrative Technology Services	323,783.89				(323,783.89)
Community Services	586,853.63				(586,853.63)
Interest on Long-Term Debt	21,388.00			108,079.02	86,691.02
Unallocated Depreciation Expense	721,082.27				(721,082.27)
Loss on Disposal of Capital Assets	15,817.33				(15,817.33)
Total Governmental Activities	\$ 16,098,148.39	\$ 384,889.15	\$ 811,569.52	\$ 13,879,559.90	(1,022,129.82)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					1,509,181.00
Property Taxes, Levied for Capital Projects					438,086.85
Grants and Contributions Not Restricted to Specific Programs					11,379,354.89
Unrestricted Investment Earnings					22,827.35
Miscellaneous					180,560.17
Total General Revenues					13,530,010.26
Change in Net Assets					12,507,880.44
Net Assets - Beginning					18,444,025.05
Net Assets - Ending					\$ 30,951,905.49

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

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

	General Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 1,672,456.93	\$ 4,600,034.06	\$ 896,906.13
Investments	9,333.78	42,009.92	
Due from Other Funds	54,037.92		
Due from Other Agencies	33,277.80		
Inventories			
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 1,769,106.43</u></u>	<u><u>\$ 4,642,043.98</u></u>	<u><u>\$ 896,906.13</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 218,106.11	\$	\$
Accounts Payable	2,635.41	16,339.00	
Construction Contracts Payable		601,696.66	
Construction Contracts Payable - Retainage		752,026.87	
Due to Other Funds	64,393.08		
Due to Other Agencies	229,177.14	718,109.34	
Deposits Payable			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>514,311.74</u>	<u>2,088,171.87</u>	
Fund Balances:			
Reserved for State Categorical Programs	107,702.18		
Reserved for Encumbrances		2,096,380.77	
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	1,147,092.51		
Debt Service Funds			
Capital Projects Funds		457,491.34	896,906.13
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,254,794.69</u>	<u>2,553,872.11</u>	<u>896,906.13</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,769,106.43</u></u>	<u><u>\$ 4,642,043.98</u></u>	<u><u>\$ 896,906.13</u></u>

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 250,214.88	\$ 7,419,612.00
8,833.92	60,177.62
64,393.08	118,431.00
11,649.82	44,927.62
<u>36,288.40</u>	<u>36,288.40</u>
<u>\$ 371,380.10</u>	<u>\$ 7,679,436.64</u>
\$ 11,043.43	\$ 218,106.11
	30,017.84
	601,696.66
	752,026.87
54,037.92	118,431.00
66,065.44	1,013,351.92
<u>28.36</u>	<u>28.36</u>
<u>131,175.15</u>	<u>2,733,658.76</u>
	107,702.18
	2,096,380.77
73,524.17	73,524.17
	1,147,092.51
133,689.09	133,689.09
<u>32,991.69</u>	<u>1,387,389.16</u>
<u>240,204.95</u>	<u>4,945,777.88</u>
<u>\$ 371,380.10</u>	<u>\$ 7,679,436.64</u>

**LIBERTY 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 **\$ 4,945,777.88**

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. 28,176,126.43

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	\$ 388,000.00	
Special Public Education Capital Outlay Advance Payable	887,338.05	
Compensated Absences Payable	730,515.77	
Other Postemployment Benefits Payable	164,145.00	(2,169,998.82)

Total Net Assets - Governmental Activities **\$ 30,951,905.49**

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

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LIBERTY 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	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 55,537.08	\$	\$
Federal Through State and Local	478,562.27		
State	9,354,984.54	13,757,761.16	
Local:			
Property Taxes	1,509,181.00		438,086.85
Charges for Services - Food Service			
Miscellaneous	320,464.60	16,266.50	10,767.89
Total Revenues	11,718,729.49	13,774,027.66	448,854.74
Expenditures			
Current - Education:			
Instruction	7,415,285.27		
Pupil Personnel Services	238,571.70		
Instructional Media Services	124,619.79		
Instruction and Curriculum Development Services	325,390.43		
Instructional Staff Training Services	172,041.76		
Instruction Related Technology	142,965.57		
Board of Education	364,904.84		
General Administration	255,211.93		
School Administration	552,830.40		
Facilities Acquisition and Construction	53,739.60	106,018.18	54,388.76
Fiscal Services	278,218.22		
Food Services			
Central Services	1,942.70		
Pupil Transportation Services	599,853.73		
Operation of Plant	1,155,326.60		
Maintenance of Plant	205,961.90		
Administrative Technology Services	319,064.94		
Community Services	175,705.77		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	18,400.00	11,846,127.96	2,475.92
Other Capital Outlay	10,291.88	228,601.05	
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	12,410,327.03	12,180,747.19	56,864.68
Excess (Deficiency) of Revenues Over Expenditures	(691,597.54)	1,593,280.47	391,990.06
Other Financing Sources (Uses)			
Transfers In	95,252.94		
Proceeds of Special Facilities Construction Advance		887,338.05	
Transfers Out	(4,134.50)	(95,252.94)	
Total Other Financing Sources (Uses)	91,118.44	792,085.11	
Net Change in Fund Balances	(600,479.10)	2,385,365.58	391,990.06
Fund Balances, Beginning	1,855,273.79	168,506.53	504,916.07
Fund Balances, Ending	\$ 1,254,794.69	\$ 2,553,872.11	\$ 896,906.13

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

Other Governmental Funds	Total Governmental Funds
\$	\$
2,291,018.55	55,537.08
132,620.71	2,769,580.82
	23,245,366.41
	1,947,267.85
234,250.52	234,250.52
6,527.16	354,026.15
2,664,416.94	28,606,028.83
912,356.46	8,327,641.73
155,546.40	394,118.10
	124,619.79
120,957.69	446,348.12
125,423.62	297,465.38
	142,965.57
	364,904.84
33,357.51	288,569.44
	552,830.40
9,566.61	223,713.15
	278,218.22
738,351.74	738,351.74
48.46	1,991.16
8,659.13	608,512.86
2,876.17	1,158,202.77
	205,961.90
1,372.59	320,437.53
389,908.31	565,614.08
485,767.77	12,352,771.65
68,602.69	307,495.62
77,000.00	77,000.00
21,388.00	21,388.00
3,151,183.15	27,799,122.05
(486,766.21)	806,906.78
4,134.50	99,387.44
	887,338.05
	(99,387.44)
4,134.50	887,338.05
(482,631.71)	1,694,244.83
722,836.66	3,251,533.05
\$ 240,204.95	\$ 4,945,777.88

**LIBERTY 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 \$ 1,694,244.83

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. 11,807,108.70

The undepreciated cost of capital assets disposed of during the current period is reported in the statement of activities. The cost of these assets was recognized as an expenditure in the governmental funds in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (15,817.33)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 77,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (3,172.71)

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 fiscal year. (164,145.00)

Special Public Education Capital Outlay Advances provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. This is the increase in the Special Public Education Capital Outlay Advance liability in the current period. (887,338.05)

Change in Net Assets - Governmental Activities \$ 12,507,880.44

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 110,250.00</u>
LIABILITIES	
Internal Accounts Payable	<u>\$ 110,250.00</u>

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

**LIBERTY 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 Liberty County School District is considered part of the Florida system of public education. The governing body of the school district is the Liberty 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 Liberty 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 these criteria, no component units are included within the reporting entity of the District.

➤ **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 School District.

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 function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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.

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental 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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.
- Capital Projects – Public Education Capital Outlay Fund – to account for financial resources allocated by the Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- 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 and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- 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 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.

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 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. 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.

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.

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include a certificate of deposit and

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 and 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 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 the LGIP.

Investments made locally consist of a certificate of deposit, which is reported at cost. 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 cost on the last invoice, which approximates the first-in, first-out basis, 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 during the year, and are adjusted 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 \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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	8 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 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 benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2008-09 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facilities Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following three fiscal years. During the three-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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

The School Board adopted the 2008 tax levy on September 25, 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 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 Liberty 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.

➤ **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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.

3. INVESTMENTS

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

Investments	Maturities	Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1)	46 Day Average	\$ 5,770,603.39
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	52,703.45
Debt Service Accounts	6 Months	7,474.17
Certificate of Deposit (1) (2)	October 2009	78,492.50
Total Investments		<u>\$ 5,909,273.51</u>

Notes: (1) Investment reported as a cash equivalent.

(2) A portion of the certificate of deposit, \$66,050, is reserved for the Certificates of Indebtedness, Series 1977, bond issue.

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,

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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's investment policy limits investments to those prescribed by Florida Statutes and State Board of Education rules.
- 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 certificate of deposit is in a qualified public depository.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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	\$ 875,603.83	\$	\$	\$ 875,603.83
Construction in Progress	1,710,158.85	11,466,065.91	1,306,195.25	11,870,029.51
Total Capital Assets Not Being Depreciated	2,585,762.68	11,466,065.91	1,306,195.25	12,745,633.34
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,781,270.41	23,157.74		1,804,428.15
Buildings and Fixed Equipment	17,550,608.25	2,122,738.80	1,540.00	19,671,807.05
Furniture, Fixtures, and Equipment	2,200,192.49	304,312.47	290,630.11	2,213,874.85
Motor Vehicles	1,412,856.61			1,412,856.61
Total Capital Assets Being Depreciated	22,944,927.76	2,450,209.01	292,170.11	25,102,966.66
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	950,094.72	76,348.24		1,026,442.96
Buildings and Fixed Equipment	5,701,780.38	409,625.94	400.40	6,111,005.92
Furniture, Fixtures, and Equipment	1,509,086.05	235,108.09	275,952.38	1,468,241.76
Motor Vehicles	984,894.23	81,888.70		1,066,782.93
Total Accumulated Depreciation	9,145,855.38	802,970.97	276,352.78	9,672,473.57
Total Capital Assets Being Depreciated, Net	13,799,072.38	1,647,238.04	15,817.33	15,430,493.09
Governmental Activities Capital Assets, Net	<u>\$ 16,384,835.06</u>	<u>\$ 13,113,303.95</u>	<u>\$ 1,322,012.58</u>	<u>\$ 28,176,126.43</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 81,888.70
Unallocated	721,082.27
Total Depreciation Expense - Governmental Activities	<u>\$ 802,970.97</u>

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

5. SPECIAL PUBLIC EDUCATION CAPITAL OUTLAY ADVANCE PAYABLE

The liability at June 30, 2009, of \$887,338.05 represents the amount of the Public Education Capital Outlay Special Facilities allocation expected to be replaced by other District capital outlay sources that are committed under Section 1013.64, Florida Statutes, for funding specific construction needs. The liability is expected to be retired by the close of the 2011-12 fiscal year.

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 1999A	\$ 135,000	4.375 - 4.750	2019
Series 2005A	40,000	5.0	2016
Series 2005B, Refunding	90,000	5.0	2018
District Revenue Bonds:			
Series 1977	123,000	5.0	2010
Total Bonds Payable	<u>\$ 388,000</u>		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education 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.

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 77-596, Special Acts of 1977, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Liberty County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 32,831.25	\$ 20,000.00	\$ 12,831.25
2011	26,862.50	15,000.00	11,862.50
2012	36,137.50	25,000.00	11,137.50
2013	34,937.50	25,000.00	9,937.50
2014	33,725.00	25,000.00	8,725.00
2015-2019	178,387.50	155,000.00	23,387.50
Total State School Bonds	342,881.25	265,000.00	77,881.25
District Revenue Bonds:			
2010	64,650.00	60,000.00	4,650.00
2011	64,575.00	63,000.00	1,575.00
Total District Revenue Bonds	129,225.00	123,000.00	6,225.00
Total	\$ 472,106.25	\$ 388,000.00	\$ 84,106.25

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	\$ 465,000.00	\$	\$ 77,000.00	\$ 388,000.00	\$ 80,000.00
Special Public Education Capital Outlay Advance Payable		887,338.05		887,338.05	264,414.00
Compensated Absences Payable	727,343.06	116,701.29	113,528.58	730,515.77	24,213.16
Other Postemployment Benefits Payable		251,799.00	87,654.00	164,145.00	
Total Governmental Activities	\$1,192,343.06	\$ 1,255,838.34	\$ 278,182.58	\$2,169,998.82	\$ 368,627.16

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

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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	\$ 54,037.92	\$ 64,393.08
Nonmajor Governmental	64,393.08	54,037.92
Total	<u>\$ 118,431.00</u>	<u>\$ 118,431.00</u>

These interfund amounts represent Federal cash advance moneys owed to the Special Revenue – Other Fund from the General Fund and a temporary loan from the General Fund to the Special Revenue – Food Service Fund. All are expected to be paid in one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 95,252.94	\$ 4,134.50
Capital Projects:		
Public Education Capital Outlay		95,252.94
Nonmajor Governmental	4,134.50	
Total	<u>\$ 99,387.44</u>	<u>\$ 99,387.44</u>

These interfund transfers were to reimburse the General Fund for eligible Public Education Capital Outlay maintenance expenditures and to supplement the food service program.

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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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:

<u>Source</u>	<u>Amount</u>
Gross Receipts Tax (Public Education Capital Outlay)	\$ 13,757,761.16
Florida Education Finance Program	6,997,079.00
Categorical Educational Programs:	
Class Size Reduction	1,231,480.00
Transportation	326,995.00
Voluntary Prekindergarten	205,279.50
Instructional Materials	150,433.00
School Recognition	54,409.00
Florida Teachers Lead	20,991.00
Workforce Development Program	37,815.00
Discretionary Lottery Funds	34,224.00
Miscellaneous	428,899.75
Total	<u>\$ 23,245,366.41</u>

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

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>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.284	\$ 1,373,831
Basic Discretionary Local Effort	0.498	129,479
Supplemental Discretionary Local Effort	0.250	65,000
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	454,997
 Total	<u>7.782</u>	<u>\$ 2,023,307</u>

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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 4 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.

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 12 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$38,696.43.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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
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 \$730,033.08, \$787,940.20, and \$800,648.66, 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.

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 \$3,079,886 at the July 1, 2008, 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 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 coverages, and life insurance benefits. 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

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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. The amount of contributions required for retiree dependent coverage may change from time to time. Currently, the Board contributes \$2 per year of service for each retiree toward their monthly insurance premium with a maximum of \$60. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Other Postemployment Benefits 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 through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 16 retirees received postemployment healthcare benefits. The District provided required contributions of \$87,654 toward the annual OPEB cost. Plan members receiving benefits contributed \$100,289 through their required contributions ranging from \$338 to \$477 per month for retiree-only coverage, and from \$799 to \$996 for retiree and spouse coverage, depending on the health plan selected.

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:

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Amount
Normal Cost (service cost for one year)	\$ 147,262
Amortization of Unfunded Actuarial Accrued Liability	98,034
Interest on Normal Cost and Amortization	6,503
Annual Required Contribution	251,799
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	
Annual OPEB Cost (Expense)	251,799
Contribution Toward the OPEB Cost	(87,654)
Increase in Net OPEB Obligation	164,145
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	<u>\$ 164,145</u>

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 (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
2008-09	251,799	34.81%	164,145

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$3,079,886, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,079,886 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$4,537,459 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 67.88 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.

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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 October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 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 12 percent initially beginning October 1, 2008, reduced by various decrements per year, to an ultimate rate of 5 percent beginning October 1, 2017. 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
Hosford Elementary and Jr. High School Additions and Renovations:			
Architect	\$ 607,409.00	\$ 551,487.55	\$ 55,921.45
Construction Manager	10,494,368.32	9,216,078.03	1,278,290.29
Direct Purchase Orders	1,786,333.68	1,744,406.20	41,927.48
Total	<u>\$ 12,888,111.00</u>	<u>\$ 11,511,971.78</u>	<u>\$ 1,376,139.22</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 Liberty County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management 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

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

participating districts. The Washington County District School Board serves as fiscal agent for the Consortium and reports the financial statements and transfers for the Consortium. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

The District obtains its employee group health insurance through an HMO (Health Maintenance Organization).

OTHER REQUIRED SUPPLEMENTARY INFORMATION

LIBERTY COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 54,000.00	\$ 54,000.00	\$ 55,537.08	\$ 1,537.08
Federal Through State and Local	231,000.00	242,599.90	478,562.27	235,962.37
State	9,972,066.00	9,664,643.07	9,354,984.54	(309,658.53)
Local:				
Property Taxes	1,592,516.00	1,592,516.00	1,509,181.00	(83,335.00)
Miscellaneous	428,000.00	428,871.00	320,464.60	(108,406.40)
Total Revenues	12,277,582.00	11,982,629.97	11,718,729.49	(263,900.48)
Expenditures				
Current - Education:				
Instruction	8,105,948.89	7,697,479.19	7,415,285.27	282,193.92
Pupil Personnel Services	263,754.52	268,750.55	238,571.70	30,178.85
Instructional Media Services	136,058.97	132,154.37	124,619.79	7,534.58
Instruction and Curriculum Development Services	345,299.97	342,898.38	325,390.43	17,507.95
Instructional Staff Training Services	215,631.24	177,191.30	172,041.76	5,149.54
Instruction Related Technology	151,619.20	144,281.15	142,965.57	1,315.58
Board of Education	371,098.54	384,442.58	364,904.84	19,537.74
General Administration	263,157.04	267,846.34	255,211.93	12,634.41
School Administration	560,787.91	566,930.32	552,830.40	14,099.92
Facilities Acquisition and Construction	176,727.91	142,789.73	53,739.60	89,050.13
Fiscal Services	297,947.86	299,204.03	278,218.22	20,985.81
Central Services	2,560.06	2,949.06	1,942.70	1,006.36
Pupil Transportation Services	713,937.73	664,154.59	599,853.73	64,300.86
Operation of Plant	1,087,289.25	1,229,290.67	1,155,326.60	73,964.07
Maintenance of Plant	200,025.32	216,446.64	205,961.90	10,484.74
Administrative Technology Services	298,391.58	325,763.38	319,064.94	6,698.44
Community Services	216,232.35	220,252.15	175,705.77	44,546.38
Fixed Capital Outlay:				
Facilities Acquisition and Construction		18,400.00	18,400.00	
Other Capital Outlay		10,291.88	10,291.88	
Total Expenditures	13,406,468.34	13,111,516.31	12,410,327.03	701,189.28
Deficiency of Revenues Under Expenditures	(1,128,886.34)	(1,128,886.34)	(691,597.54)	437,288.80
Other Financing Sources (Uses)				
Transfers In			95,252.94	95,252.94
Transfers Out	(100,000.00)	(100,000.00)	(4,134.50)	95,865.50
Total Other Financing Sources (Uses)	(100,000.00)	(100,000.00)	91,118.44	191,118.44
Net Change in Fund Balances	(1,228,886.34)	(1,228,886.34)	(600,479.10)	628,407.24
Fund Balances, Beginning	1,855,273.79	1,855,273.79	1,855,273.79	
Fund Balances, Ending	\$ 626,387.45	\$ 626,387.45	\$ 1,254,794.69	\$ 628,407.24

LIBERTY 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) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 3,079,886	\$ 3,079,886	0.0%	\$ 4,537,459	67.88%

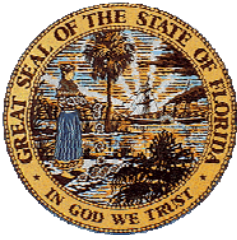
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LIBERTY 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)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 99,818.62	\$
National School Lunch Program	10.555	300	294,641.65	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	40,286.41	
Total Child Nutrition Cluster			434,746.68	
Florida Department of Health:				
Child and Adult Care Food Program	10.558	None	38,324.84	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Land	10.665	None	374,866.00	
Total United States Department of Agriculture			847,937.52	
United States Department of Education:				
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	458,080.79	
Special Education - Preschool Grants	84.173	267	14,674.58	
Total Special Education Cluster			472,755.37	
Adult Education - Basic Grants to States	84.002	191	33,056.90	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226	586,425.24	37,870.00
Career and Technical Education - Basic Grants to States	84.048	161	42,960.49	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	5,700.03	
Even Start - State Educational Agencies	84.213	219	243,696.55	
Twenty-First Century Community Learning Centers	84.287	244	339,694.42	
State Grants for Innovative Programs	84.298	113	200.31	
Education Technology State Grants	84.318	121	696.16	
Transition to Teaching	84.350	227	19,137.40	
Improving Teacher Quality State Grants	84.367	224	72,547.17	
Total United States Department of Education			1,816,870.04	37,870.00
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	1,076.99	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	55,537.08	
Total Expenditures of Federal Awards			\$ 2,721,421.63	\$ 37,870.00

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food received during the 2008-09 fiscal year. Commodities are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT 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, each major fund, and the aggregate remaining fund information of the Liberty 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, as described in our report on the Liberty 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. We

consider Financial Statement Finding Nos. 1 through 3, which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be significant deficiencies in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is a material weakness.

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.

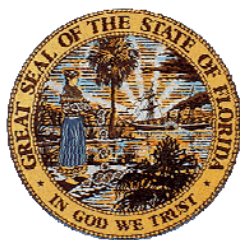
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
February 5, 2010



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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 Liberty 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.

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with Eligibility requirements that are applicable to the Title I Grants to Local Educational Agencies program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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. 2 through 4.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, one of which we consider to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2 to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Federal Awards Finding No. 1 to be a material weakness.

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

February 5, 2010

**LIBERTY 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)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs, except Title I (CFDA No. 84.010).

Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB *Circular A-133*? Yes

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Secure Payments for States and Counties Containing Federal Land (CFDA No. 10.665); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); and Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 1: Financial Reporting

Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed certain reporting errors, examples of which are discussed below.

- Although the District properly reported expenditures relating to construction contract and retainage payable on the fund financial statements, District personnel inadvertently excluded capitalization of these amounts totaling \$1,353,723.53 to construction in progress on the government-wide statements. These balances also affected other items reported on the government-wide statements, and resulted in the District understating the invested in capital assets, net of related debt, and overstating facility acquisition and construction expenses by the same amounts. When amounts are not properly capitalized in the government-wide statements, capital assets may not be properly accounted for and depreciated properly.
- The District accumulated information to properly report the major construction commitments in the notes to financial statements but, because of an oversight, certain encumbrances for contract commitments, totaling \$1,334,211.74, were not recorded in the general ledger of the Capital Projects – Public Education Capital Outlay Fund. This resulted in an understatement of reserved for encumbrances and an overstatement of unreserved fund balance by the same amount for this fund on the financial statements. While the note disclosures provided information to help financial statement users understand the District's major construction commitments, when commitments are not properly reserved in the fund statements, the funding source for these commitments is not clearly evidenced.

We extended our audit procedures to determine the adjustments necessary, and adjustments were accepted by the District to properly report the account balances. A similar finding was noted in our report No. 2009-128.

Recommendation: **To facilitate necessary financial reporting, the District should enhance procedures to ensure the accuracy of the financial statements.**

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

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility.

Our audit disclosed that some inappropriate access privileges existed in the District's payroll and finance applications. The access privileges either permitted employees to perform incompatible duties or were unnecessary for their job

functions. These conditions increased the risk of unauthorized disclosure, modification, or destruction of data and IT resources and indicated a need for improved District review of employee access. Specifically:

- Two payroll department employees were responsible for reconciling monthly payroll reports with the prior month payroll reports and supporting records, such as correspondence for new employees, retirements, and bonuses; adding new employees to the payroll system; and other payroll processing procedures. However, these two employees had additional duties that were incompatible with their responsibilities in that one could record journal entries and the other employee reconciled the payroll bank account for February through June 2009. Absent appropriate separation of duties or compensating controls, such as supervisory review of payroll transactions, the two employees could make payroll errors or perpetrate fraud, without timely detection.
- In January 2009, access privileges were not properly updated for two employees who discontinued certain job duties. One of these employees, who formerly made accounting entries for contracted services and served as backup for inputting Medicaid accounting entries, continued to have the capability to input these entries in the finance application. In addition, compensating controls were not in place to prevent or detect erroneous or fictitious accounting entries that this employee could make. The other employee, who was previously responsible for processing monthly payrolls, retained the capability to update and process payroll, and record manual checks in the finance application, without supervisory review of these transactions to minimize the effects of these incompatible duties. Subsequent to our inquiry, in August 2009, the District removed the unnecessary access privileges. Access privileges should be limited to employee job responsibilities to reduce the risk of errors or fraud from occurring.

Recommendation: The District should separate duties to the extent possible within the payroll department, or provide for compensating controls, such as supervisory review and approval of payroll transactions. The District should also timely remove any inappropriate or unnecessary access privileges to minimize the risk that the access privileges could be used to compromise District data or IT resources.

Finding No. 3: Bank Reconciliations

Improvements could be made in the District's preparation of bank reconciliations for its payroll bank account. Effective internal control procedures require that bank account reconciliations be performed on a routine basis, by persons independent of the payroll process, and reviewed by supervisory personnel. This provides reasonable assurance that cash assets agree with recorded amounts and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions.

Our inquiries disclosed that the employee responsible for reconciling the payroll bank statement to the general ledger was initially unable to perform this procedure, and relied on assistance from one of the payroll clerks to reconcile the July 2008 through January 2009 bank statements. As of August 24, 2009, attempts had been made to reconcile the February through June 2009 bank statements, but amounts remained unreconciled with differences ranging from \$837.33 to \$1,954.63. In addition, none of the reconciliations evidenced the preparation date or supervisory review and approval. As of August 31, 2009, the payroll clerk completed the February through July 2009 bank reconciliations; however, the usefulness of the reconciliations was limited given the incompatible duties discussed in Finding No. 2 above and the lack of supervisory review. We extended our procedures, and were able to identify the causes for the differences, such as the double recording of certain adjusting entries, and other oversights. While we were able to determine that the amounts recorded for cash were materially correct and properly classified, our procedures do not substitute for management's responsibility to independently and timely reconcile cash assets with those recorded in the accounting records.

Recommendation: The District should enhance procedures to timely reconcile the payroll bank account to the general ledger by someone independent of the payroll process, promptly resolve reconciling differences, and record the date and supervisory review and approval of the reconciliations.

ADDITIONAL MATTERS

Finding No. 4: Wire Transfers

Improvements could be made in controls over wire transfers from the District's State Board of Administration (SBA) investment account. During the 2008-09 fiscal year, the District had a wire transfer agreement with SBA to establish the authority for District staff to make transfers, consisting of deposits and withdrawals totaling approximately \$27 million and \$24 million, respectively. Our initial review of the agreement disclosed that the District inadvertently continued to grant the former Superintendent, who retired in November 2008, the ability to make changes to the agreement. As such, the former Superintendent could revise the agreement to allow him to make transfers to non-Board accounts. Subsequent to our inquiries in September 2009, the District updated its SBA agreement to delete the former Superintendent from the agreement. While District personnel conducted independent investment reconciliations to confirm the propriety of electronic funds transfers, and our tests of these transfers did not disclose any errors or fraud as a result of this deficiency, controls could be further enhanced if wire transfer agreements were timely updated for personnel changes.

Recommendation: The District should continue its efforts to ensure that wire transfer agreements are timely amended for changes in personnel.

Finding No. 5: Information Technology – Disaster Recovery

Disaster recovery plans are an important element of effective internal control over IT operations. The Board approved a Computer Disaster Plan on June 9, 2009, to ensure the continuation of normal computer services for school sites and the District offices in the event of an emergency or disaster. However, the Plan has not been tested. When a disaster recovery plan has not been tested for feasibility or weaknesses, there is an increased risk that, in the event of an actual disaster, recovery measures may not function as intended and restoration of IT operations may be delayed. A similar finding was noted in our report No. 2009-128.

Recommendation: The District should test the effectiveness of its Computer Disaster Plan on an annual basis.

Finding No. 6: Information Technology – Security Awareness Training

The District had not implemented a comprehensive ongoing security awareness training program to apprise new employees of, or reemphasize to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Included in the data maintained by the District's IT systems are significant nonpublic records (e.g., student record information and other records that contain sensitive information). Although the District required employees to sign an acknowledgement that they have read and understood the applicable policies, the District did not have a security awareness training program to facilitate employees' education and training on security responsibilities, including data classification and acceptable or

prohibited methods for storage and transmission, Internet and e-mail usage, password protection and usage, and workstation controls. A comprehensive ongoing security awareness training program would decrease the risk that the District's IT resources may be intentionally or unintentionally compromised by employees while performing their assigned duties.

Recommendation: To minimize misuse of IT resources, the District should promote security awareness through a comprehensive training program to ensure that all employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.

Finding No. 7: Tangible Personal Property

Section 274, Florida Statutes, and Department of Financial Services (DFS) Rule 69I-73, Florida Administrative Code (FAC), establish the control procedures and records requirements necessary to achieve accountability for tangible personal property. The District reported tangible personal property (furniture, fixtures, and equipment and motor vehicles), net of accumulated depreciation, totaling \$1,091,706.77 at June 30, 2009. Our review of District controls over tangible personal property disclosed the following deficiencies:

- We selected 30 items from the District's property records for physical inspection and noted 4 items, including a laptop, 2 desktop computers, and a printer, with original costs totaling approximately \$4,000 that lacked property tags or other markings establishing their ownership, contrary to DFS Rule 69I-73, FAC. Properly attaching property tags enhances the District's ability to readily account for its property and identifies the items as District property which may reduce the difficulty in identifying District property recovered from theft.
- Of the 15 items that we selected to test from location to subsidiary property records, we noted a poster maker with an original cost of \$4,995 that had the wrong property number on it and 2 computers with original costs totaling approximately \$2,500 that were not recorded properly in the property records. For 1 of the 2 computers, the property records indicated that it had been junked on May 19, 2008; however, it was still in use by the school and as such should have been classified as "active" in the property records. For the other computer, the property records indicated that it was assigned to a different school; however, no transfer documentation had been filed to authorize the move of the item. When tangible personal property items are accurately recorded in the property records, the risk decreases that such property might be used for unauthorized purposes.
- Our test of 63 Federal equipment items purchased during the 2008-09 fiscal year totaling \$53,660.24, disclosed that 5 items costing \$8,181.12 were not tagged in a timely manner. We noted 1 item purchased from Special Education program funds in November 2008, and 4 items purchased from Twenty-First Century program funds in December 2008, that were not tagged until after our inquiries in August 2009, or nine months later. Effective controls over tangible personal property include timely attaching property tags to District property.

Recommendation: The District should strengthen controls over tangible personal property to ensure the adequacy and accuracy of property records and accountability for such assets.

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:** Material Noncompliance and Material Weakness**Questioned Costs:** \$154,460.42

Eligibility - Title I Allocations. The District is required, pursuant to Title 34, Section 200.78, Code of Federal Regulations (CFR), to allocate Title I schoolwide program funds to schools identified as eligible and selected to participate in rank order on the basis of the total number of children from low income families in each school. The District is not required to allocate the same per-pupil amount to each participating school attendance area or school provided that it allocates higher per-pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty. Additionally, Title 20, Section 6313(a), United States Code, requires the District to serve those schools above the 75 percent poverty level, including middle or high schools, without regard to grade span, before it serves any with a poverty percentage below 75 percent.

As part of our audit tests, we requested that the District provide documentation to evidence that the budget was properly allocated to the respective schools as required. The District provided copies of the budget allocations posted to the District's accounting records; however, based on this information, amounts were not allocated to the District's schools in rank order based upon the number of children from low income families, as follows:

School	Grade Span	Final Budget Allocation	Number of Low-Income Students	Percentage of Low-Income Students	Ranking Based on Percentage of Low-Income Students	Title I Per-Pupil Allocation	Ranking Based on Per-Pupil Allocation	Per-Pupil Allocation Above #1 Ranked School	Number of Low-Income Students X Allocation Above #1 Ranked School
Horizons	5-12	\$ 7,360.00	28	76%	1	\$ 262.86	3		
W.R.Tolar	K-8	206,937.76	439	65%	2	\$ 471.38	2	\$ 208.52	\$ 91,540.28
Hosford	Pre-K-8	108,656.91	174	58%	3	\$ 624.47	1	\$ 361.61	62,920.14
Total		<u>\$ 322,954.67</u>	<u>641</u>						<u>\$ 154,460.42</u>

According to the public school eligibility survey submitted with the District's Title I grant application, the District planned to allocate \$330 per low-income student on an equitable basis, however, the grant application numbers did not correspond to budgetary entries for each school established in the District's accounting system, which is used to control expenditures. We also noted, as a contributing factor, that the District funded approximately 60 percent (or \$15,704.24) of a teacher aide position at Hosford Elementary and Jr. High School, although this position was not listed in the grant application or amendments. As such, resources were not allocated to the schools in rank order of need, and amounts totaling \$154,460.42, represent questioned costs subject to disallowance by the grantor.

Recommendation: District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to the schools as required. The District should also document to the grantor (Florida Department of Education) the allowability of the questioned costs and how Title I schoolwide program resources were used at the schools with the greatest needs, or restore \$154,460.42 to the Title I program.

District Contact Person: Gay Lewis, Director of Instruction

Federal Awards Finding No. 2:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$32,075.42**

Allowable Costs/Cost Principles - Compensation of Personnel Services. Enhancements were needed in District procedures to ensure salary charges to the Special Education program were correct. The United States Office of Management and Budget *Circular A-87*, Attachment A, Section C.1, provides, in part that, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be authorized or not prohibited under State or local laws or regulations, and be adequately documented. Additionally, the Florida Department of Education's *Project Application and Amendment Procedures for Federal and State Programs (Green Book)* provides, in part, that prior approval in writing is required for changes in the types of personnel employed by a project.

The District had Special Education program salary and benefit expenditures, totaling \$196,996.83, and we initially tested salary and benefits expenditures, totaling approximately \$152,518.21, for six employees paid from the program to determine whether the charges were appropriate. The Special Education program award included budgeted amounts for certain salary charges such as clerical personnel, a school psychologist, and other noninstructional staff; however, we noted that program funds were used to pay for one special education teacher, contrary to the terms of the grant award. We expanded our testing and noted that the District paid 10 additional employees who were not eligible for payment from the original grant award, and the District made no amendment to the program to allow such program expenditures. The salaries, benefits, and related indirect costs, total \$32,075.42, for these 11 employees, consisting of two special education teachers, one physical therapy assistant, and eight bus monitors. District personnel indicated that the previous grant director mistakenly approved these charges at the beginning of the 2008-09 fiscal year, and a new director who began in November 2008, was unaware that these costs were being charged to the grant. Absent effective monitoring procedures, the District has limited assurance that program funds were appropriately expended for necessary program activities. As such, these costs are unallowable and represent questioned costs.

Recommendation: The District should enhance procedures to ensure that personnel paid from the Special Education program are included in the original grant award or that it obtains prior approval from the grantor for such charges. Additionally, the District should document to the Florida Department of Education the allowability of the questioned costs, totaling \$32,075.42, or the moneys should be restored to the program.

District Contact Person: Teresa Yancey, Supervisor of Exceptional Student Education Services

Federal Awards Finding No. 3:**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 – Supplemental Educational Services. The 2008-09 school year was the third consecutive year that Hosford Elementary and Jr. High School was identified as a school in need of improvement (SINI), pursuant to the No Child Left Behind Act of 2001. Title 34, Section 200.33, Code of Federal Regulations, provides, in part, that the District must arrange for eligible students to receive supplemental educational services from a State-approved provider for such schools, and take appropriate corrective action, such as replacing school staff or implementing new curriculum. Alternatively, the Florida Department of Education (FDOE) entered into a pilot program with the United States Department of Education requiring such schools to develop and implement a corrective action plan.

The District received a corrective action plan grant award of \$2,913 from FDOE to assist in implementing a corrective action plan at Hosford Elementary and Jr. High School, to provide supplemental educational services for eligible students at the school. However, the District used none of the funds from the award, and did not prepare a corrective action plan. Further, District records did not evidence that FDOE granted any waivers or extensions of the need for a corrective action plan and implementation of corrective action. Without properly preparing and implementing a corrective action plan for schools identified for SINI year 3 schools, the risk increases that the schools will likely not make annual yearly progress in the succeeding school year.

Recommendation: The District should establish procedures to ensure it prepares and implements a corrective action plan for schools in need of improvement as required.

District Contact Person: Gay Lewis, Director of Instruction

Federal Awards Finding No. 4:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education Cluster (CFDA No. 84.027) and Twenty-First Century Community Learning Centers (CFDA No. 84.287)****Finding Type: Noncompliance****Questioned Costs: Not Applicable**

Equipment Management. Financial Statement Finding No. 7 addresses various deficiencies in controls over capital assets. These control weaknesses in accountability for Federal funding and related property impact the administration of the Federally-funded Special Education and Twenty-First Century Community Learning Centers programs.

Recommendation: The District should implement procedures necessary to provide adequate control over capital assets used in Federal programs.

District Contact Person: Stephanie Hofheinz, Director of Finance

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. 2009-128.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*LIBERTY 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
2008-107 (1)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)/Procurement	District procedures did not ensure that cost reimbursements to the food service management company were limited to the maximum allowable costs and that food purchase rebates were properly received pursuant to the contract resulting in questioned costs of \$132,000.	Partially corrected	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2009-128 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)/Special Tests and Provisions	District procedures did not ensure that Title I schoolwide program resources were properly allocated to the schools as required resulting in questioned costs of \$51,385.62.	Not corrected	The District has agreed to restore the questioned costs to the program during the 2009-10 fiscal year; however, the condition has not been corrected.
2009-128 (2)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)/Procurement	District procedures did not ensure timely review of the basis and reasonableness of expenditures to its food service management company and that food purchase rebates were properly received pursuant to the contract.	Corrected	
2009-128 (3)	Special Education Cluster (CFDA No. 84.027)/Allowable Costs/Cost Principles - Compensation of Personnel	District procedures did not provide for the preparation of periodic personnel activity reports to adjust budgeted salary cost allocations, when necessary, or documentation of actual time spent for employees who work on multiple activities or cost objectives.	Corrected	

EXHIBIT A
MANAGEMENT'S RESPONSE



THE SCHOOL BOARD OF LIBERTY COUNTY

Dr. Sue Summers

Superintendent of Schools

Post Office Box 429
Bristol, Florida 32321-0429

Phone (850) 643-2275
Fax (850) 643-2533

February 4, 2010

***LIBERTY COUNTY SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS
FY 08/09***

Finding No. 1: Financial Reporting

District Response: We have noted the recommended changes regarding the appropriate reporting of construction contracts and retainage payable in the Capital Projects Funds. We will correctly report these items this fiscal year.

Finding No. 2: Information Technology-Management of Access Privileges

District Response: Starting in February of 2010, monthly reports of MIS access will be printed by Jason Fowler, Information Security Administrator and provided to Stephanie Hofheinz, Information Security Manager for review. Additionally, procedures have been put in place in our payroll department to immediately notify Jason Fowler when terminations of employment have occurred, triggering a more timely termination of MIS access.

Finding No. 3: Bank Reconciliations

District Response: Because we are a small district, this function has been handled by a secretary in another department. Although an attempt was made to reconcile the bank statements timely, the employee was unsure how to properly account for various transactions. Additionally, there were several accounting errors made in posting insurance refunds and direct deposit errors into TERMS. District procedures have been revised to provide an independent review of the bank statements monthly. Assistance is being provided to resolve reconciling items and efforts are being made to make the appropriate accounting transactions. As of January, 2010, the payroll bank statement is reconciled to TERMS. We hope that the additional review will resolve this issue.

Finding No. 4: Wire Transfers

District Response: We submitted a revised State Board of Administration Investment Pool Document to delete the former Superintendent and add the current Superintendent in September of 2009.

District I
Logan E. Kever

District II
Thomas W. Duggar

District III
Darrel L. Hayes

District IV
B. Kyle Peddie

District V
Roger W. Reddick

An Equal Opportunity Employer / Provider—Drug Free Workplace

Finding No. 5: Information Technology – Disaster Recovery

District Response: The Liberty County School Board has a formal disaster recovery plan which will be tested before the end of this fiscal year. We are planning to use the Calhoun County School Board District Office as our test site.

Finding No. 6 Information Technology – Security Awareness Training

District Response: The Liberty County School Board will hold its first Security Awareness Training following the conclusion of FCAT examinations. This training will be conducted at the beginning of each school year going forward.

Finding No. 7 Tangible Personal Property

District Response: The Liberty County School Board Finance Office has expanded our procedures in order to properly tag property items. The fiscal assistant who handles property will forward the property number to the appropriate property custodian at each school site. They in turn are responsible for placing the assigned property number onto the item. The fiscal assistant will then follow up by conducting a site visit to ensure that property numbers are being assigned timely and properly.

Federally Financed Programs**Finding No. 1: Title I Allocations**

District Response: The Liberty County School Board is closely monitoring Title I expenditures to ensure that allocation percentages are based on the number of low income students at each eligible school. We are working with the Florida Department of Education Title I office in an attempt to resolve this issue and justify the expenditures that were made during this audit period. If the FDOE finds that grant funds were not spent properly, we will restore the questioned costs to the program.

Finding No. 2: Allowable Costs/Cost Principles – Compensation of Personnel Services

District Response: The Liberty County School Board is working with the Florida Department of Education to resolve the questioned costs related to this federal program. If FDOE does not accept our justifications, we will restore the questioned costs to the program.

Finding No. 3: Special Tests and Provisions

District Response: The Liberty County School Board will ensure that a corrective action plan is completed and implemented for each school in need of improvement.

Additionally, we will use available grant funding to help meet the needs of our students attending SINI schools.

Finding No. 4: Equipment Management

District Response: As noted in Financial Reporting Finding response number 7 above, we are taking corrective action to resolve this issue.

Contact Information:

If you have additional questions or concerns regarding this audit response, please contact Stephanie Hofheinz, Finance Director for the Liberty County School Board at (850) 643-2275, ext. 225 or via e-mail at Stephanie.hofheinz@lcsbonline.org.

Sincerely:



Dr. Sue Summers, Superintendent
Liberty County District School Board