

FRANKLIN 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

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

	<u>District No.</u>
Denise D. Butler to 11-17-08	1
George Thompson from 11-18-08	1
David C. Hinton	2
Teresa Ann Martin, Vice Chair	3
Jimmy Gander, Chair	4
John O. Richards Jr. to 11-17-08	5
Carlton L. Whaley from 11-18-08	5

Jo Ann B. Gander, Superintendent to 11-17-08

Nina M. Marks, 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 Juan A. Fernandez, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, CGFM, and the supervisor was Nancy M. 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.

**FRANKLIN 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 could be made in procedures to ensure that account balances and transactions are properly reported on the financial statements.

Finding No. 2: The District needed to enhance procedures for monitoring payments to the construction manager.

Finding No. 3: The District did not timely update certain capital asset subsidiary records for the new Franklin County School with costs totaling approximately \$55 million.

ADDITIONAL MATTERS

Finding No. 4: The District had not developed a formal fraud policy to provide guidance to employees for communicating known or suspected fraud to the appropriate authorities.

Finding No. 5: The District's security controls related to the assignment of access privileges needed improvement.

Finding No. 6: The District used capital outlay millage moneys, totaling \$33,226, for instructional and testing software, contrary to Section 1011.71, Florida Statutes.

Finding No. 7: The District could enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 8: The District did not conduct a review and evaluation of the reasons it collected social security numbers, and prepare written statements notifying individuals of the purpose for collecting the numbers.

Summary of Report on Federal Awards

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

Federal Awards Finding No. 1: Procedures could be enhanced to ensure that the District properly receives services before it pays for them, and maintains documentation of this process.

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

Audit Objectives and Scope

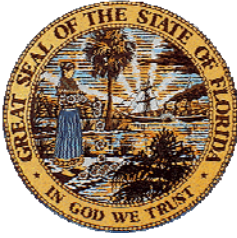
Our audit objectives were to determine whether the Franklin County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2009-138.

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*.



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AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin 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 33 percent of the assets and 40 percent of the liabilities of the aggregate remaining fund information. We also did not audit the financial statements of The Apalachicola Bay Charter School, Inc., reported as a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit and the school internal funds, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Franklin 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 Franklin 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 through 40) 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
March 9, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Franklin 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.

The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements.

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

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

- Net assets at June 30, 2009, total \$52,443,688.55, which represents a decrease of \$1,841,846.55 (3 percent) from the previous year. The primary reason for the decrease was the consolidation of three separate schools into Franklin County School and the relocation of the District's administrative facilities. The unneeded capital assets were sold or transferred to other governmental agencies and the District's Charter School, resulting in a net loss of \$2,915,126.16.
- During the current year, General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$864,593.77. This may be compared to last year's results when the General Fund revenues and other financing sources were less than expenditures and other financing uses by \$271,475.83. This is the first time in three years that the General Fund financial condition improved over the prior year. The improvement is attributed to the one-half mill voter-approved operating millage the Board levied during the year.
- The District uses Federal funding to supplement State and local funding provided by the Florida Education Finance Program (FEFP). The Florida Department of Education calculates FEFP funding, in part, based on student population.
- The District's charter school continued to enjoy full enrollment in all grade levels K-8. It is reported as a component unit in the financial statements.

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, the budgetary comparison schedule, and a schedule of funding progress 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 District presented on the accrual basis of accounting. The statement of net assets provides information about the District'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.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units –The District has two separate legal entities that meet the criteria for inclusion in the reporting entity as provided by generally accepted accounting principles. The Apalachicola Bay Charter School, Inc., is reported separately from the financial information for the primary government as a discretely presented component unit.

The Franklin School Board Leasing Corporation (Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

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, the Special Revenue – ARRA Economic Stimulus Fund, the Capital Projects – Public Education Capital Outlay Fund, the

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

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

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 and Other Assets	\$ 10,200,770.11	\$ 17,826,002.65
Capital Assets	60,857,249.65	59,404,671.43
Total Assets	71,058,019.76	77,230,674.08
Long-Term Liabilities	16,261,406.59	17,041,505.34
Other Liabilities	2,352,924.62	5,903,633.64
Total Liabilities	18,614,331.21	22,945,138.98
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	45,285,759.28	47,618,320.26
Restricted	6,859,288.15	7,187,434.56
Unrestricted (Deficit)	298,641.12	(520,219.72)
Total Net Assets	\$ 52,443,688.55	\$ 54,285,535.10

The largest portion of the District's net assets (86 percent) reflects its investment in capital assets (e.g., land, buildings and fixed equipment, furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. 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	\$ 100,723.67	\$ 180,338.63
Operating Grants and Contributions	944,357.79	684,288.26
Capital Grants and Contributions	858,576.88	10,811,627.85
General Revenues:		
Property Taxes, Levied for Operational Purposes	8,531,630.50	7,617,466.18
Property Taxes, Levied for Capital Projects	4,240,271.46	7,703,262.30
Grants and Contributions Not Restricted to Specific Programs	4,465,102.35	3,946,816.83
Unrestricted Investment Earnings	(187,779.31)	769,230.35
Miscellaneous	157,398.24	217,093.90
Special Item	(2,915,126.16)	
Total Revenues	16,195,155.42	31,930,124.30
Functions/Program Expenses:		
Instruction	8,441,315.99	8,027,596.03
Pupil Personnel Services	366,223.95	317,368.22
Instructional Media Services	107,373.13	198,950.96
Instruction and Curriculum Development Services	101,723.17	91,993.66
Instructional Staff Training Services	362,168.85	222,333.75
Instruction Related Technology	113,129.31	3,941.76
Board of Education	363,342.47	365,248.36
General Administration	400,724.56	324,438.26
School Administration	311,665.42	380,116.24
Facilities Acquisition and Construction	1,646,123.29	669,221.53
Fiscal Services	390,576.89	372,904.57
Food Services	760,738.01	665,018.98
Central Services	253,989.69	297,137.28
Pupil Transportation Services	934,002.98	923,197.91
Operation of Plant	879,668.63	853,735.32
Maintenance of Plant	251,391.65	218,968.61
Administrative Technology Services	18,317.31	4,129.38
Interest on Long-Term Debt	759,264.29	774,339.67
Unallocated Depreciation Expense	1,575,262.38	444,664.95
Loss on Disposal of Capital Assets		9,496.00
Total Functions/Program Expenses	18,037,001.97	15,164,801.44
Increase (Decrease) in Net Assets	\$ (1,841,846.55)	\$ 16,765,322.86

Governmental activities decreased the District's net assets by \$1,841,846.55 or 3 percent. State revenues decreased by \$9,610,690.38, or 71 percent from the previous year, consisting primarily of a decrease in Public Education Capital Outlay Funds of \$10,459,295.29 from the previous year, due to the completion of the new consolidated K-12 school (Franklin County School). The largest revenue source is local property taxes (67 percent), which decreased by \$2,548,826.52, or 17 percent due to a decrease in the local capital improvement tax levied. Total expenses increased by \$2,872,200.53, or 19 percent, from the previous year due mainly to an increase of unallocated depreciation expense related to the Franklin County School and noncapitalized furniture items for the new school. In addition, the District consolidated three separate schools into Franklin County School and relocated the District's administrative facilities.

The unneeded capital assets were sold or transferred to other governmental agencies and the District's charter school, resulting in a net loss of \$2,915,126.16 (additional information can be found in Note 10 to the financial statements).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Unreserved/Undesignated Fund Balance

- **General Fund.** The unreserved fund balance of the General Fund, which had increased steadily for six years prior to the 2005-06 fiscal year, experienced declines for the 2005-06, 2006-07, and 2007-08 fiscal years, and increased in the current year. The increase in the current year fund balance is partially a result of the additional 0.5 mill property tax levied for operations. The District will continue to focus on its goals of maintaining an upward trend through improved budgeting procedures and accountability, and the more effective use of revenue from State and Federal projects. The unreserved fund balance, as a percent of revenue, for the past ten years is shown below.

<i>Fiscal Year</i>	<i>Unreserved/ Undesignated Fund Balance</i>	<i>Percent of Revenue</i>
2008-09	\$ 923,260.07	7.79%
2007-08	111,245.99	1.05
2006-07	452,042.84	4.23
2005-06	764,825.20	7.70
2004-05	803,594.88	8.82
2003-04	787,877.38	9.25
2002-03	753,360.73	9.22
2001-02	701,380.29	8.53
2000-01	553,673.78	6.68
1999-00	200,402.36	2.47

- **Special Revenue – ARRA Economic Stimulus Fund.** The ARRA Economic Stimulus Fund has total revenue and expenditures of \$5,738.84 each. The District used these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance.
- **Capital Projects – Public Education Capital Outlay Fund.** The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$382,993.43, earmarked for new construction and renovation and remodeling capital outlay projects. There were no outstanding encumbrances at fiscal year-end.
- **Capital Projects – Local Capital Improvement Fund.** The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$6,320,038.40, generated by the local capital improvement tax levy for educational capital outlay needs, including new construction and renovation and remodeling projects. These funds can be spent on Board-advertised projects. The increase in fund balance of \$520,626.20 is due to a decrease in major construction and renovation projects.
- **Capital Projects – Other Fund.** The Capital Projects – Other Fund has zero fund balance at fiscal year-end. The decrease in fund balance of \$5,429,516.64 was a result of the final payment on the construction of the new Franklin County School.

GENERAL FUND BUDGETARY HIGHLIGHTS

Significant variances between the original and final budgeted appropriations and expenditures were primarily the result of salary increases and increases in other instructional costs. There were no significant variances between the final budgeted and actual appropriations or expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$60,857,249.65 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. The major capital asset events during the current fiscal year included the completion of the new Franklin County School and the sale and transfer of the three schools and District administrative facilities, respectively, which were no longer needed.

Additional information on the District's capital assets can be found in Notes 4 and 10 to the financial statements.

Long-Term Debt

Long-term debt consists of two promissory notes from the Bank of America for a lease-purchase agreement with the Corporation, whereby the District secured financing of educational facilities in the amount of \$16,350,000 at an interest rate of 4.58 percent. The purpose of this debt was for partial funding of construction of the District's new K-12 Franklin County School. Interest and principal totaling \$1,537,740.05 will be paid every June 30 until paid in full on June 30, 2023.

Additional information on the District's long-term debt can be found in Notes 6 and 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

- ***Student Enrollment and Funding.*** General Fund revenues from State sources comprised 23.77 percent of the total available resources for current operations of the District. This is up from 23.26 percent the previous year. The increase was primarily due to an increase in State FEFP and categorical funding. Revenues from State sources for current operations are primarily from FEFP administered by the Florida Department of Education under the provisions of Section 1011.62, Florida Statutes.
- ***Capital Outlay Funding.*** In addition to the operating funds discussed above, the District annually receives funding for capital outlay projects from State and local revenue. State sources include allocations for Public Education Capital Outlay and the lottery-funded Classrooms First moneys, and local revenue is generated by the District's 1.25 millage levy for capital outlay.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Franklin County District School Board'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 Financial Services, Franklin County District School Board, 85 School Road, Suite 1, Eastpoint, FL 32328.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 9,633,393.79	\$ 428,431.00
Investments - Other		299,045.00
Due from Other Agencies	194,902.46	26,052.00
Inventories	15,296.81	
Investments in SBA Fund B Surplus Funds Trust Fund	357,177.05	
Loan Costs, Net		865.00
Capital Assets:		
Nondepreciable Capital Assets	14,736,955.66	571,333.00
Depreciable Capital Assets, Net	46,120,293.99	545,623.00
TOTAL ASSETS	\$ 71,058,019.76	\$ 1,871,349.00
LIABILITIES		
Payroll Deductions and Withholdings	\$ 78,527.54	\$ 55,397.00
Accounts Payable	274,397.08	9,059.00
Deposits Payable	2,000,000.00	
Short-Term Note Payable		
Long-Term Liabilities:		
Portion Due Within One Year	904,660.60	74,220.00
Portion Due After One Year	15,356,745.99	125,455.00
Total Liabilities	18,614,331.21	264,131.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	45,285,759.28	936,092.00
Restricted for:		
State Categorical Programs	45,160.98	
Capital Projects	6,699,731.78	
Other Purposes	114,395.39	5,822.00
Unrestricted	298,641.12	665,304.00
Total Net Assets	52,443,688.55	1,607,218.00
TOTAL LIABILITIES AND NET ASSETS	\$ 71,058,019.76	\$ 1,871,349.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 8,441,315.99	\$ 2,425.00	\$	\$
Pupil Personnel Services	366,223.95			
Instructional Media Services	107,373.13			
Instruction and Curriculum Development Services	101,723.17			
Instructional Staff Training Services	362,168.85			
Instruction Related Technology	113,129.31			
Board of Education	363,342.47			
General Administration	400,724.56			
School Administration	311,665.42			
Facilities Acquisition and Construction	1,646,123.29			506,537.88
Fiscal Services	390,576.89			
Food Services	760,738.01	79,839.65	606,360.79	
Central Services	253,989.69			
Pupil Transportation Services	934,002.98	18,459.02	337,997.00	
Operation of Plant	879,668.63			
Maintenance of Plant	251,391.65			352,039.00
Administrative Technology Services	18,317.31			
Interest on Long-Term Debt	759,264.29			
Unallocated Depreciation Expense	1,575,262.38			
Total Primary Government	\$ 18,037,001.97	\$ 100,723.67	\$ 944,357.79	\$ 858,576.88
Component Unit				
The Apalachicola Bay Charter School, Inc.	\$ 2,233,925.00	\$ 0.00	\$ 55,461.00	\$ 387,282.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Special Items:

Loss on Disposal of Capital Assets Due to Consolidation

Donated Land - Chapman

Donated Labor - Building Renovations

Total General Revenues and Special Items**Change in Net Assets**

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (8,438,890.99)	\$
(366,223.95)	
(107,373.13)	
(101,723.17)	
(362,168.85)	
(113,129.31)	
(363,342.47)	
(400,724.56)	
(311,665.42)	
(1,139,585.41)	
(390,576.89)	
(74,537.57)	
(253,989.69)	
(577,546.96)	
(879,668.63)	
100,647.35	
(18,317.31)	
(759,264.29)	
(1,575,262.38)	
(16,133,343.63)	
	(1,791,182.00)
8,531,630.50	
4,240,271.46	
4,465,102.35	2,026,520.00
(187,779.31)	8,565.00
157,398.24	
(2,915,126.16)	
	320,400.00
	17,255.00
14,291,497.08	2,372,740.00
(1,841,846.55)	581,558.00
54,285,535.10	1,025,660.00
\$ 52,443,688.55	\$ 1,607,218.00

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 3,220,595.31	\$	\$ 2,263,024.42
Due from Other Funds	86,378.89		
Due from Other Agencies	176,705.96	5,738.84	
Inventories			
Investments in Fund B Surplus Funds Trust Fund	8,488.32		125,519.78
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,492,168.48</u>	<u>\$ 5,738.84</u>	<u>\$ 2,388,544.20</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 14,631.64	\$	\$
Due to Other Funds	111,835.00	5,738.84	2,005,550.77
Deposits Payable	274,397.08		
Short-Term Note Payable	2,000,000.00		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,400,863.72</u>	<u>5,738.84</u>	<u>2,005,550.77</u>
Fund Balances:			
Reserved for State Categorical Programs	45,160.98		
Reserved for Fund B Surplus Funds Trust Fund	8,488.32		125,519.78
Reserved for Other Purposes	114,395.39		
Unreserved, Reported in:			
General Fund	923,260.07		
Special Revenue Funds			
Debt Service Funds			
Capital Projects Funds			257,473.65
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,091,304.76</u>	<u> </u>	<u>382,993.43</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,492,168.48</u>	<u>\$ 5,738.84</u>	<u>\$ 2,388,544.20</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,046,010.80	\$	\$ 103,763.26	\$ 9,633,393.79
2,113,368.61		73,555.00	2,273,302.50
		12,457.66	194,902.46
		15,296.81	15,296.81
219,659.60		3,509.35	357,177.05
<u>\$ 6,379,039.01</u>	<u>\$</u>	<u>\$ 208,582.08</u>	<u>\$ 12,474,072.61</u>
\$ 15,208.62	\$	\$ 48,687.28	\$ 78,527.54
43,791.99		106,385.90	2,273,302.50
			274,397.08
			2,000,000.00
<u>59,000.61</u>		<u>155,073.18</u>	<u>4,626,227.12</u>
219,659.60		3,509.35	45,160.98
			357,177.05
			114,395.39
			923,260.07
		50,738.92	50,738.92
		6,047.34	6,047.34
6,100,378.80		(6,786.71)	6,351,065.74
<u>6,320,038.40</u>		<u>53,508.90</u>	<u>7,847,845.49</u>
<u>\$ 6,379,039.01</u>	<u>\$ 0.00</u>	<u>\$ 208,582.08</u>	<u>\$ 12,474,072.61</u>

FRANKLIN 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	\$	7,847,845.49
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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.		60,857,249.65
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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:

Notes Payable	\$ 15,571,490.37	
Compensated Absences Payable	617,940.22	
Other Postemployment Benefits Payable	71,976.00	
		(16,261,406.59)

Total Net Assets - Governmental Activities	\$	<u>52,443,688.55</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Through State and Local	\$ 216,356.06	\$ 5,738.84	\$
State	2,816,919.61		794,859.00
Local:			
Property Taxes	8,531,630.50		
Charges for Services - Food Service			
Interest Income	18,560.49		(113,421.18)
Miscellaneous	264,912.60		
Total Revenues	11,848,379.26	5,738.84	681,437.82
Expenditures			
Current - Education:			
Instruction	7,568,453.62	1,962.03	
Pupil Personnel Services	320,788.04	3,776.81	
Instructional Media Services	96,910.33		
Instruction and Curriculum Development Services	101,723.17		
Instructional Staff Training Services	14,183.49		
Instruction Related Technology	113,129.31		
Board of Education	363,332.43		
General Administration	360,514.59		
School Administration	311,665.42		
Facilities Acquisition and Construction			192,673.74
Fiscal Services	390,576.89		
Food Services	3.03		
Central Services	238,466.35		
Pupil Transportation Services	741,867.23		
Operation of Plant	879,668.63		
Maintenance of Plant	251,391.65		
Administrative Technology Services	18,317.31		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			508,912.00
Other Capital Outlay	12,018.00		
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	11,783,009.49	5,738.84	701,585.74
Excess (Deficiency) of Revenues Over Expenditures	65,369.77		(20,147.92)
Other Financing Sources (Uses)			
Transfers In	741,049.00		
Proceeds from Sale of Capital Assets	100,000.00		
Insurance Loss Recoveries	23,175.00		
Transfers Out	(65,000.00)		
Total Other Financing Sources (Uses)	799,224.00		
Net Change in Fund Balances	864,593.77		(20,147.92)
Fund Balances, Beginning	226,710.99		403,141.35
Fund Balances, Ending	\$ 1,091,304.76	\$ 0.00	\$ 382,993.43

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		1,963,303.79	2,185,398.69
		381,880.88	3,993,659.49
4,240,271.46			12,771,901.96
(161,953.94)	69,725.88	79,839.65	79,839.65
	2,348.50	(690.56)	(187,779.31)
			267,261.10
4,078,317.52	72,074.38	2,424,333.76	19,110,281.58
		872,489.46	8,442,905.11
		41,659.10	366,223.95
		10,462.80	107,373.13
			101,723.17
		347,985.36	362,168.85
			113,129.31
		10.04	363,342.47
		40,209.97	400,724.56
277,483.30	1,175,966.25		311,665.42
			1,646,123.29
			390,576.89
		760,734.98	760,738.01
		15,523.34	253,989.69
		40,765.93	782,633.16
			879,668.63
			251,391.65
			18,317.31
1,144,855.53	4,037,934.39	69,537.84	5,761,239.76
156,563.44	287,690.38		456,271.82
		778,509.63	778,509.63
		759,264.29	759,264.29
1,578,902.27	5,501,591.02	3,737,152.74	23,307,980.10
2,499,415.25	(5,429,516.64)	(1,312,818.98)	(4,197,698.52)
		1,607,740.05	2,348,789.05
			100,000.00
			23,175.00
(1,978,789.05)		(305,000.00)	(2,348,789.05)
(1,978,789.05)		1,302,740.05	123,175.00
520,626.20	(5,429,516.64)	(10,078.93)	(4,074,523.52)
5,799,412.20	5,429,516.64	63,587.83	11,922,369.01
\$ 6,320,038.40	\$ 0.00	\$ 53,508.90	\$ 7,847,845.49

**FRANKLIN 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 \$ (4,074,523.52)

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. 4,490,879.38

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (3,038,301.16)

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 paid in excess of the amount earned in the current period. 73,565.12

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (71,976.00)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current year. 778,509.63

Change in Net Assets - Governmental Activities \$ (1,841,846.55)

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

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

	Agency Funds
	<u> </u>
ASSETS	
Cash and Cash Equivalents	\$ 84,891.00
Other Assets	3,255.00
Inventories	<u>16,733.00</u>
TOTAL ASSETS	<u><u>\$ 104,879.00</u></u>
LIABILITIES	
Accounts Payable	\$ 2,585.00
Internal Accounts Payable	<u>102,294.00</u>
TOTAL LIABILITIES	<u><u>\$ 104,879.00</u></u>

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

**FRANKLIN 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 Franklin County School District is considered part of the Florida system of public education. The governing body of the school district is the Franklin 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 Franklin County.

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

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

- **Blended Component Unit.** The Franklin School Board Leasing Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Franklin County District School Board and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements include the financial data of The Apalachicola Bay Charter School, Inc. (Charter School), a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School contracts are for a period of five years commencing July 1, 2004, for the middle school and July 1, 2006, for the elementary school and may be renewed by the mutual agreement of both parties. At the end of the term of a charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the Charter School in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a school is dissolved or terminated, any unencumbered funds and all school property purchased with public funds shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The Charter School is considered a component unit of the District, since it is fiscally dependent on the District to levy taxes for its support.

An annual postaudit of the Charter School's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office.

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

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services 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.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources 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, renovation and remodeling projects, and debt service payments on notes payable.

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

- Capital Projects – Other Fund – to account for financial resources from promissory note proceeds to be used for educational capital outlay needs.

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.

The Apalachicola Bay Charter School, Inc., shown as a discretely presented component unit, is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

➤ **Deposits and Investments**

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

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

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

Investments consist of 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. These 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 LGIP.

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 based 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 when purchased and adjusted at year-end to reflect year-end physical inventories.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$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. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 - 30 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for those 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.

**FRANKLIN 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 also received allocations from Classrooms for Kids, Class Size Reduction – Construction, and Classrooms First Programs. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

A schedule of revenue from State sources for the current 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 Franklin County Property Appraiser, and property taxes are collected by the Franklin County Tax Collector.

The School Board adopted the 2008 tax levy on September 10, 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 Franklin 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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

➤ **Budgetary Information**

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.

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

- 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.

➤ **Deficit Fund Balance in Individual Nonmajor Fund**

The following capital project fund has a deficit fund balance at June 30, 2009:

	Fund Balance 7-1-08	Change in Fund Balance Fiscal Year 2008-09	Fund Balance 6-30-09
	<u> </u>	<u> </u>	<u> </u>
Capital Outlay and Debt Service Fund	\$ 3,548.20	\$ (6,848.25)	\$ (3,300.05)

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP); 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 or savings accounts 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 does not further limit its investment choices, and does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash equivalents, with a fair value of \$6,991,185.92 at June 30, 2009, are in SBA LGIP with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity 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. The District's investment in LGIP is rated AAAm by Standard & Poor's.

Investments with a fair value of \$357,177.05 at June 30, 2009, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with 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.

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

However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District's investment in Fund B is unrated.

4. CHANGES 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	\$ 4,779,033.00	\$	\$ 67,383.00	\$ 4,711,650.00
Land Improvements - Nondepreciable		10,025,305.66		10,025,305.66
Construction in Progress	49,390,518.74	5,761,239.76	55,151,758.50	
Total Capital Assets Not Being Depreciated	54,169,551.74	15,786,545.42	55,219,141.50	14,736,955.66
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	618,144.16	5,014,874.86	465,905.47	5,167,113.55
Buildings and Fixed Equipment	10,027,514.12	40,111,577.98	8,223,458.06	41,915,634.04
Furniture, Fixtures, and Equipment	1,351,810.14	367,037.94	653,613.39	1,065,234.69
Motor Vehicles	1,566,809.58		47,855.00	1,518,954.58
Computer Software	592,044.48	89,233.88	31,509.25	649,769.11
Total Capital Assets Being Depreciated	14,156,322.48	45,582,724.66	9,422,341.17	50,316,705.97
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	414,620.46	355,386.19	350,725.52	419,281.13
Buildings and Fixed Equipment	6,303,625.25	985,542.63	5,398,622.81	1,890,545.07
Furniture, Fixtures, and Equipment	1,053,819.42	127,857.29	632,478.74	549,197.97
Motor Vehicles	795,257.73	151,369.82	45,568.37	901,059.18
Computer Software	353,879.93	106,476.27	24,027.57	436,328.63
Total Accumulated Depreciation	8,921,202.79	1,726,632.20	6,451,423.01	4,196,411.98
Total Capital Assets Being Depreciated, Net	5,235,119.69	43,856,092.46	2,970,918.16	46,120,293.99
Governmental Activities Capital Assets, Net	\$ 59,404,671.43	\$ 59,642,637.88	\$ 58,190,059.66	\$ 60,857,249.65

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 151,369.82
Unallocated	1,575,262.38
Total Depreciation Expense - Governmental Activities	\$ 1,726,632.20

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

5. CHANGES IN SHORT-TERM DEBT

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

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Short-Term Note Payable	\$ 2,000,000	\$	\$	\$ 2,000,000

Proceeds from the short-term note payable was used as a working capital reserve in the General Fund as permitted under State and Federal tax laws. During the fiscal year, the note ended on July 31, 2008, was renewed through June 30, 2009, and not repaid until July 1, 2009.

6. NOTES PAYABLE

The District entered into a financing arrangement on December 29, 2006, which was characterized as a lease-purchase agreement, with the Franklin School Board Leasing Corporation (Corporation), whereby the District secured financing of various educational facilities in the total amount of \$16,350,000. The financing was accomplished through the issuance of two promissory notes, Note 2006 and Note 2007, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Corporation, with a rental fee of \$1 per year. The initial term of the lease commenced on December 29, 2006, and ends on the earlier of the date on which the notes have been paid, or June 30, 2034 (both dates inclusive). The property covered by the ground lease is, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement to the Corporation, or the Bank as the assignee of the Corporation.

The District property included in the ground lease under this arrangement is located in the West one half of Fractional Section 23, Township 8 South, Range 6 West, as more fully described in the Ground Lease Agreement. The lease payments are payable by the District annually, on June 30, at an interest rate of 4.58 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

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

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 1,537,740.05	\$ 814,660.60	\$ 723,079.45
2011	1,537,740.05	852,490.26	685,249.79
2012	1,537,740.06	890,307.66	647,432.40
2013	1,537,740.06	933,419.03	604,321.03
2014	1,537,740.05	976,763.37	560,976.68
2015-2019	7,688,700.29	5,606,322.21	2,082,378.08
2020-2023	6,150,960.21	5,497,527.24	653,432.97
Total Minimum Lease Payments	<u>\$ 21,528,360.77</u>	<u>\$ 15,571,490.37</u>	<u>\$ 5,956,870.40</u>

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					
Notes Payable	\$ 16,350,000.00	\$	\$ 778,509.63	\$ 15,571,490.37	\$ 814,660.60
Compensated Absences Payable	691,505.34	49,844.57	123,409.69	617,940.22	90,000.00
Other Postemployment Benefits Payable		168,454.00	96,478.00	71,976.00	
Total Governmental Activities	<u>\$ 17,041,505.34</u>	<u>\$ 218,298.57</u>	<u>\$ 998,397.32</u>	<u>\$ 16,261,406.59</u>	<u>\$ 904,660.60</u>

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

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 86,378.89	\$ 111,835.00
Special Revenue:		
ARRA Economic Stimulus		5,738.84
Capital Projects:		
Public Education Capital Outlay		2,005,550.77
Local Capital Improvement	2,113,368.61	43,791.99
Nonmajor Governmental	73,555.00	106,385.90
Total	<u>\$ 2,273,302.50</u>	<u>\$ 2,273,302.50</u>

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

The above interfund receivables and payables mainly represent moneys owed to the Capital Projects – Local Capital Improvement Fund for construction costs of the new consolidated school. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 741,049.00	\$ 65,000.00
Capital Projects:		
Local Capital Improvement		1,978,789.05
Nonmajor Governmental	1,607,740.05	305,000.00
Total	<u>\$ 2,348,789.05</u>	<u>\$ 2,348,789.05</u>

Transfers to the General Fund were for reimbursements of maintenance expenditures and property casualty insurance premiums. Additionally, \$305,000 of unrestricted debt service moneys were transferred from a nonmajor debt service fund. Transfers to the nonmajor governmental funds were to cover debt service costs and to cover costs of raises for employees of the District's 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. There were no outstanding purchase orders at June 30, 2009.

10. SPECIAL ITEM – LOSS ON DISPOSAL OF CAPITAL ASSETS DUE TO CONSOLIDATION

The District combined the educational services previously provided at Chapman Elementary, Carrabelle, and Apalachicola High Schools into the new K-12 Consolidated School and relocated the District's administrative functions. In an educational plant survey, the Florida Department of Education approved certain facilities and equipment as unnecessary for educational purposes, and the Board adopted resolutions in September 2008 and March 2009 to dispose of the property. Consequently, pursuant to Section 1013.28, Florida Statutes, the Board determined that it was in the best interest of the public to take the following actions:

- Certain property at Carrabelle School, with a book value of \$1,144,536.07, was transferred to the City of Carrabelle, and approximately five acres at the School, with a book value of \$16,950, was provided to Franklin County Board of County Commissioners for \$100,000;

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

- Because of an unexpected decline in enrollment, Apalachicola High School, with a remaining book value of \$1,112,555.59, was deemed fully impaired for future use, and an impairment loss of this amount was recognized. In March 2009, the Board approved transfer of the Apalachicola High School facilities to the City of Apalachicola, and began negotiations for a lease with the City for the land adjacent to the school; however, the terms of the transfer of the building and land lease were not finalized as of March 4, 2010;
- Chapman Elementary School, with a book value of \$699,148.96, was transferred to The Apalachicola Bay Charter School, Inc., and will continue to be used for educational services as reflected in the educational plant survey;
- Administrative facilities, with a book value of \$56,264.14, were transferred to the Franklin County Board of County Commissioners; and
- Disposal of miscellaneous items, which provided a net gain of \$14,328.60.

The above transactions resulted in a net loss of \$2,915,126.16, which is reported as a special item on the statement of activities.

11. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Categorical Educational Programs:	
Class Size Reduction Operating	\$ 1,174,138.00
Transportation	337,997.00
Voluntary Prekindergarten	166,365.14
Instructional Materials	126,219.00
Florida Teachers Lead	16,492.00
Florida Education Finance Program	638,932.00
Class Size Reduction Construction	272,187.00
Charter School Capital Outlay	170,633.00
Classrooms for Kids	146,700.00
Gross Receipts Tax (Public Education Capital Outlay)	132,800.00
Classrooms First	72,539.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	64,632.97
Workforce Development Program	55,678.00
Discretionary Lottery Funds	27,045.00
Food Service Supplement	12,163.00
Mobile Home License Tax	2,808.24
Miscellaneous	576,330.14
Total	<u><u>\$ 3,993,659.49</u></u>

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

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

12. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	1.483	\$ 5,196,471.07
Basic Discretionary Local Effort	0.498	1,745,006.68
Supplemental Discretionary Local Effort	0.034	119,142.93
Voted School Tax:		
Additional Operating	0.500	1,752,011.98
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.250	4,380,029.95
Total	<u>3.765</u>	<u>\$ 13,192,662.61</u>

13. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 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.

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

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 15 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$62,756.69.

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 \$576,133.47, \$550,613.67, and \$558,268.86, 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.

14. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than*

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

Pensions, for certain postemployment benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$1,534,105 at the July 1, 2008, date of transition amortized over 15 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, and life insurance coverages. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, the Board contributes \$25,000 annually towards the cost of retiree life and health insurance premiums. Premiums for life insurance are fully paid by the Board and the remainder of the \$25,000 is divided equally between all retirees covered through the District's plan in the form of a subsidy to the health insurance premium. As the number of eligible retirees fluctuates, so does the amount of the subsidy. 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, 20 retirees received postemployment healthcare benefits and 72 employees received life insurance coverage. The District provided required contributions of \$96,478 toward the annual OPEB cost. Plan members receiving benefits contributed \$146,820 through their required contributions of \$530 per month for retiree-only coverage and \$834 for retiree and spouse coverage, depending on the 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 GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for other postemployment benefits:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 52,672
Amortization of Unfunded Actuarial Accrued Liability	110,020
Interest on Normal Cost and Amortization	5,762
Annual Required Contribution	168,454
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	
Annual OPEB Cost (Expense)	168,454
Contribution Toward the OPEB Cost	(96,478)
Increase in Net OPEB Obligation	71,976
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	<u>\$ 71,976</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	168,454	57.3%	71,976

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$1,534,105, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,534,105 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,372,276 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 28.6 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.

**FRANKLIN 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 to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.75 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 0 percent initially beginning October 1, 2008, rising to 9 percent the following year before being reduced by 0.5 percent per year, to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 14 years.

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 Franklin County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium. Settled claims resulting from the risks described above have not exceeded commercial coverage in any of the past three fiscal years.

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Through State and Local	\$ 30,000.00	\$ 30,000.00	\$ 216,356.06	\$ 186,356.06
State	2,437,205.00	2,437,205.00	2,816,919.61	379,714.61
Local:				
Property Taxes	8,712,704.00	9,914,704.00	8,531,630.50	(1,383,073.50)
Interest Income			18,560.49	18,560.49
Miscellaneous	186,000.00	186,000.00	264,912.60	78,912.60
Total Revenues	11,365,909.00	12,567,909.00	11,848,379.26	(719,529.74)
Expenditures				
Current - Education:				
Instruction	6,496,229.00	7,613,229.00	7,568,453.62	44,775.38
Pupil Personnel Services	204,634.00	322,634.00	320,788.04	1,845.96
Instructional Media Services	143,653.00	143,653.00	96,910.33	46,742.67
Instruction and Curriculum Development Services		102,982.00	101,723.17	1,258.83
Instructional Staff Training Services		15,000.00	14,183.49	816.51
Instruction Related Technology	65,949.00	113,949.00	113,129.31	819.69
Board of Education	356,421.00	363,421.00	363,332.43	88.57
General Administration	270,268.00	362,268.00	360,514.59	1,753.41
School Administration	445,803.00	315,803.00	311,665.42	4,137.58
Fiscal Services	418,149.00	392,149.00	390,576.89	1,572.11
Food Services		10.00	3.03	6.97
Central Services	263,130.00	241,130.00	238,466.35	2,663.65
Pupil Transportation Services	1,023,862.00	744,852.00	741,867.23	2,984.77
Operation of Plant	855,981.00	880,981.00	879,668.63	1,312.37
Maintenance of Plant	199,293.00	252,293.00	251,391.65	901.35
Administrative Technology Services	14,500.00	18,500.00	18,317.31	182.69
Fixed Capital Outlay:				
Other Capital Outlay		12,018.00	12,018.00	
Total Expenditures	10,757,872.00	11,894,872.00	11,783,009.49	111,862.51
Excess of Revenues Over Expenditures	608,037.00	673,037.00	65,369.77	(607,667.23)
Other Financing Sources (Uses)				
Transfers In	465,000.00	741,049.00	741,049.00	
Proceeds from Sale of Capital Assets			100,000.00	100,000.00
Insurance Loss Recoveries			23,175.00	23,175.00
Transfers Out		(65,000.00)	(65,000.00)	
Total Other Financing Sources (Uses)	465,000.00	676,049.00	799,224.00	123,175.00
Net Change in Fund Balances	1,073,037.00	1,349,086.00	864,593.77	(484,492.23)
Fund Balances, Beginning	226,710.99		226,710.99	226,710.99
Fund Balances, Ending	\$ 1,299,747.99	\$ 1,349,086.00	\$ 1,091,304.76	\$ (257,781.24)

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

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	\$ 1,534,105	\$ 1,534,105	0.0%	\$ 5,372,276	28.6%

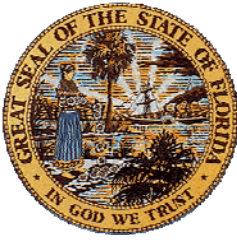
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FRANKLIN 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	\$ 156,568.38	\$
National School Lunch Program	10.555	300, 350	361,909.41	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	92,203.85	
Total Child Nutrition Cluster			610,681.64	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	15,976.32	
Total United States Department of Agriculture			626,657.96	
United States Department of Labor:				
Indirect:				
Florida's Great Northwest, Inc.:				
WIA Pilots, Demonstrations, and Research Projects	17.261	None	108,627.35	
United States Department of Education:				
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	263	336,477.69	16,204.84
Special Education - Preschool Grants	84.173	267	36,098.10	
ARRA - Special Education Grants to States, Recovery Act	84.391	263	5,738.84	
Total Special Education Cluster			378,314.63	16,204.84
Adult Education - Basic Grants to States	84.002	191	16,837.54	
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	579,957.13	
Career and Technical Education - Basic Grants to States	84.048	161	61,122.00	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	4,113.13	
Twenty-First Century Community Learning Centers	84.287	244	228,572.05	228,572.05
Education Technology State Grants	84.318	121	3,384.01	
Rural Education	84.358	110	25,048.27	
Improving Teacher Quality State Grants	84.367	224	26,300.56	
School Improvement Grants	84.377	126	51,195.52	
Washington County District School Board:				
Reading First State Grants	84.357	None	35,986.62	
Total United States Department of Education			1,410,831.46	244,776.89
Total Expenditures of Federal Awards			\$ 2,146,116.77	\$ 244,776.89

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

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



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Franklin 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.

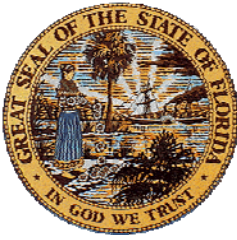
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
March 9, 2010



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

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

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

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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 a certain deficiency in internal control over compliance that we considered to be a significant deficiency.

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 deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

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. We did not consider the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report 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
March 9, 2010

**FRANKLIN 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? No

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.

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: Title I Grants to Local Educational Entities (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391); 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

**FRANKLIN 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

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is the preparation of its annual financial report. Accordingly, District personnel should ensure that the report is accurate so that users such as the Board, Superintendent, District management, and other interested parties can appropriately evaluate, among other things, District operations and financial condition. Our review of the District's 2008-09 fiscal year annual financial report as presented for audit, disclosed certain reporting errors resulting from weaknesses in control procedures, examples of which are discussed below.

- Due to inadequate subsidiary records for certain capital assets, as discussed in Finding No. 3, District personnel did not properly calculate and report depreciation expense for capital assets related to the new Franklin County School, resulting in an overstatement, totaling \$1,137,000, of capital assets, net of depreciation, and an understatement of unallocated depreciation expense by the same amount.
- The District places cash balances with the State Board of Administration (SBA) for investment. During the 2008-09 fiscal year, the District was notified by the SBA of investment losses totaling approximately \$119,000, based on the reduction in value of certain SBA investment balances. However, District personnel did not identify and record the loss, resulting in overstatements of investments and local revenue, each by the amount of the loss, in the Capital Projects – Public Education Capital Outlay Fund.
- Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits (OPEB) provided by the District. Implementing GASB 45 requires certain note disclosures, such as a description of the other postemployment benefits plan, funding status and progress, and actuarial methods and assumptions. While the District obtained an actuarial valuation that provides the information necessary to prepare the disclosures, District personnel did not include, due to oversight, the required OPEB disclosures in the notes to financial statements.

Our review disclosed that District staff had not established effective procedures to properly report certain amounts and disclosures on the financial statements, and review procedures were not in place to detect and correct reporting errors. We extended our audit procedures to determine the adjustments and revisions to the financial statement amounts and disclosures, and District personnel accepted the changes. Similar findings were noted in our report Nos. 2008-123 and 2009-138.

Recommendation: **To facilitate necessary financial reporting, the District should enhance procedures to ensure that the account balances, transactions, and note disclosures are properly reported on the financial statements.**

Finding No. 2: Construction Management Services - Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). The CME would be responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The statute further provides that the CME may be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District if actual costs exceed the GMP.

In March 2005, the District approved an agreement, containing a GMP, with a CME for the preconstruction phase of the new Franklin County School. The GMP was amended, as phases of construction progressed, to approximately \$43 million at the May 2009 final payment date. The District is responsible for construction project administration, including monitoring CME activities and reviewing documentation submitted by the CME in support of payment requests.

As similarly noted in audit report Nos. 2008-123 and 2009-138, our review disclosed that improvements were needed in the District's monitoring procedures over construction projects as discussed below:

- To reconcile the CME charges to subcontractor bids and change orders for the project, District staff selected ten line items, totaling \$33 million, from the budgeted schedules of values listed on the January 2009 pay request. From this sample, District staff traced a sample of the changes in the scheduled values totaling approximately \$32 million to change orders and bids on file at the CME's office. However, based on responses to our inquiries and review of District records, the District did not verify that the items represented bids and change orders that were Board-approved. Reconciling the documents to Board approval would provide assurance that the contract changes were authorized and consistent with the Board's intent.
- We selected CME pay requests supporting January and February 2009 payments and requested bids and change orders for nine subcontractors and work self-performed by the CME for these pay requests. The contracts supporting these pay requests represent approximately \$33.2 million of the \$43 million project. While our review of the pay requests indicated that the scheduled values of certain line items changed because of bids and change orders, District records did not evidence the applicable bids and change orders representing a net decrease of \$0.5 million. Because the District did not reconcile all of the bids and change orders to the scheduled values listed on the pay requests during the duration of the project, there is an increased risk that bids and change orders could have further reduced the contract and the District may not have realized these cost savings.
- The architect typically certified the accuracy and completeness of construction services provided by the CME and subcontractors; however, we noted instances in which subcontractors' detailed invoices were not available to support CME payments. For example, the District paid approximately \$150,000 to the CME for pay requests in January and February 2009, which included subcontractor costs of approximately the same amount; however, District records did not include subcontractor invoices, totaling \$17,151.46. While the District made the final payment on this contract in May 2009, District records did not evidence receipt and review of these invoices as of December 2009. Without evidence of the subcontractor invoices, there is an increased risk that these services were not received.
- The Florida Department of Law Enforcement (FDLE) is continuing an investigation, as similarly noted in our previous report No. 2009-138. In January 2010, FDLE arrested and charged two individuals with multiple felony counts, including grand theft, and the charges related, in part, to construction of the new Franklin County School.

Without procedures to sufficiently and appropriately reconcile construction pay requests to detailed supporting documentation, the risk increases that errors or fraud could occur and not be timely detected.

Recommendation: The District should enhance controls to ensure that it properly monitors future payments for construction management and subcontractor services.

Finding No. 3: Capital Assets

Improvements were needed in the District's accountability and financial reporting of capital assets. Accounting for capital assets should include detailed subsidiary records to account for the various capital asset categories to be used as the basis for determining amounts to be reported in the District's financial statements. Further, the detailed subsidiary records should be regularly updated for changes, and periodically reconciled to the amounts reported for each capital asset category.

The District uses the Total Enterprise Resource Management System to maintain its subsidiary records for its capital asset categories. While the District properly reported land improvements, improvements other than buildings, and buildings in the notes to financial statements, the District did not update the computerized subsidiary records of these accounts for the new Franklin County School. As a result, differences existed between the financial statement note disclosures and the subsidiary records, as shown below:

Description	June 30, 2009 Balances		
	Per Note Disclosures	Per Subsidiary Records	Differences
Land Improvements	\$ 10,025,305.66	\$	\$ 10,025,305.66
Buildings and Fixed Equipment	41,915,634.04	1,810,341.95	40,105,292.09
Improvements Other than Buildings	5,167,113.55	152,238.69	5,014,874.86
	<u>\$ 57,108,053.25</u>	<u>\$ 1,962,580.64</u>	<u>\$ 55,145,472.61</u>

Since the District calculated depreciation expense based on the subsidiary records, which excluded consideration of the new Franklin County School buildings and fixed equipment and improvements other than buildings, financial reporting errors occurred, as discussed in Finding No. 1. Effective controls over capital assets require that detailed property records be maintained, be regularly compared with existing assets, and be promptly updated for any changes in property ownership or location.

Recommendation: The District should enhance procedures to timely update capital asset subsidiary records to ensure the accuracy and completeness of depreciation expense calculations and reported amounts.

ADDITIONAL MATTERS

Finding No. 4: Policies for Reporting Fraud

As similarly noted in our report No. 2009-138, the District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking

appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

Recommendation: To aid in the detection and prevention of fraud, the District should develop policies and procedures for reporting fraud to the appropriate authorities.

Finding No. 5: Information Technology – Assignment of Access Privileges

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. As similarly noted in our report No. 2009-138, certain District security controls related to the assignment of access privileges needed improvement. We are not disclosing specific details of this issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issue. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 6: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding of new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; purchases of new and replacement equipment; and certain enterprise resource software used to support District-wide administration or State-mandated reporting requirements subject to certain conditions and limitations.

The District reported expenditures and transfers, totaling approximately \$3.6 million, from ad valorem tax proceeds in the Local Capital Improvement Fund (LCIF) during the 2008-09 fiscal year. Our tests of LCIF records supporting 22 payments, totaling approximately \$1.7 million, disclosed 2 payments totaling \$33,225.56, for instructional and testing software which represent questioned costs of ad valorem tax proceeds.

In response to our inquires, District personnel indicated that the General Fund had expenditures for items eligible for payment from ad valorem tax levy proceeds that would more than offset the above questioned costs in LCIF. However, since the District did not report transfers in LCIF to cover the questioned costs, LCIF expenditures, totaling \$33,225.56, remain questioned costs of the levy proceeds.

Recommendation: The District should document to the Florida Department of Education the allowability of these expenditures, totaling \$33,225.56, or these amounts should be restored to the Capital Projects – Local Capital Improvement Fund. Further, the District should enhance controls to ensure that ad valorem tax proceeds are expended for the purposes set forth in Section 1011.71, Florida Statutes.

Finding No. 7: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2008-152, Laws of Florida, Paragraph 120, states that from the funds provided in Specific Appropriations 9A and 120, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

During the 2008-09 school year, the District reported 2,410 contact hours for 15 students enrolled in 54 classes to FDOE. Our review of the all adult general education courses disclosed the following control deficiencies:

- District records for eight students enrolled in 22 classes disclosed that the actual attendance hours, based on enrollment and withdrawal dates, was less than reported, resulting in 246 hours overreported.
- Attendance records were not available for two students, resulting in the 384 hours reported for these students not being supported.
- District records further indicated that there were at least 16 other students who attended classes, but no hours were reported for these students.

District staff indicated that the errors mainly occurred because no one was held accountable for reporting the hours, and the employees who reported the hours did not understand the process. Given the control deficiencies above, the full extent of the course hours misreported was not readily available. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. A similar finding was noted in our report No. 2009-138.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education. Further, the District should determine the extent of hours overreported and contact the Florida Department of Education for proper resolution.

Finding No. 8: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that, as the District collects an individual's SSN, it must provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this section provides that SSNs collected by the District may not be used by the District for any purpose other than the purpose provided in the written

statement. This section also requires that the District review whether its collection of SSNs is in compliance with the above requirements, and immediately discontinue the collection of SSNs for purposes that are not in compliance.

While the District identifies employees by designated numbers on its payroll register and does not use SSNs for these record keeping purposes, it obtains SSNs for other purposes such as insurance, withholding taxes, background checks of new employees and registration of new students. However, contrary to the above law, the District had not, as of January 6, 2010, conducted a review and evaluation of its reasons for collections of SSNs or prepared a written statement notifying individuals of the purpose for collection of the numbers. In response to our inquiries, the District noted that due to a small staff and other daily responsibilities, District staff had been unable to complete these procedures. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2009-138.

Recommendation: The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that the collection of the SSNs is not imperative for the performance of its duties and responsibilities, the District should discontinue obtaining such numbers.

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: Special Education Cluster (CFDA No. 84.027 and 84.173)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Allowable Costs/Cost Principles. Improvements could be made in controls over monitoring charges to the Special Education program. The United States Office of Management and Budget *Circular A-87*, Attachment A, Section C.1., provides, in part, that costs must be adequately documented to be allowable under Federal awards. For the 2008-09 fiscal year, the District reported Special Education Cluster expenditures totaling \$378,315 for salaries and benefits, purchased services, and other costs.

We reviewed District records supporting a sample of 15 transactions, totaling approximately \$215,000, for salaries, materials and supplies, and purchased services to determine whether the District verified and documented that the District received the goods or services before it paid for them. One of the transactions, totaling \$23,721, represented payments to Leon County District School Board for exceptional education services for eligible students residing in Franklin County. The contract with the Leon County District School Board provided for salary costs of an instructor, summer service costs, and costs based on a regional funding fee and student enrollment. While the Special Education Director approved the payments, District records, such as time records or time and effort certifications and verification of the regional funding fee calculation, were not available to evidence that District confirmed the accuracy of the payment. Subsequent to our inquiry, school personnel obtained additional information including payroll records and personnel activity reports supporting salary charges totaling approximately \$16,736, and we verified the accuracy of the regional funding fee and other service costs. While we were able to reconcile the amount billed and paid with the terms of the contract, our procedures do not substitute for management's responsibility to maintain

adequate controls over such payments. When charges to Federal programs are not properly monitored, the risk increases that services may not be performed in accordance with grant terms and District intentions.

Recommendation: The District should enhance its preaudit procedures to ensure that it receives services before paying for them, and that payments reconcile to contract terms.

District Contact Person: Brenda Wilson, Director of Special Services

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education and United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: ARRA: Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); Education Technology State Grants, Recovery Act (CFDA No. 84.386); Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); and Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392)

Finding Type: Noncompliance

Questioned Costs: Not Applicable

Reporting and Special Tests and Provisions. The American Recovery and Reinvestment Act (ARRA) provides funding, in part, to school districts, with the overall goals of improving schools and achievement and producing better results for students. To support the most effective use of the funds and measure results, recipients are required to report certain information tied to the assurance, principles, and strategies associated with ARRA Federal programs. The United States Federal Government maintains a database, known as the Central Contractor Registration (CCR), to collect, validate, store, and disseminate information relating to Federal awards, including ARRA Federal programs. Both current and potential Federal recipients are required to register in CCR in order to receive Federal grant awards. Recipients are required to complete a one-time registration to provide basic information relevant to procurement and financial transactions, and must update or renew their registration at least once per year to maintain an active status.

The District received approval for ARRA Federal funding from the Florida Department of Education (FDOE), as shown in the table below:

Grant (CFDA Number)	Award Amount
ARRA – Child Nutrition Discretionary (10.579)	\$ 48,745
ARRA – Education Technology (84.386)	8,687
ARRA – Education for Homeless Children and Youth (84.387)	23,566
ARRA – Title I (84.389)	194,329
ARRA – Special Education (84.391)	153,130
ARRA – Special Education, Preschool (84.392)	4,822

Our review of District records and inquiry with District personnel disclosed that the District was initially unaware of the registration requirements, and had not registered in the CCR system as of June 30, 2009. Subsequent to our inquiries, on January 6, 2010, District personnel registered the District with CCR and indicated that the Director of

Financial Services would be responsible for future renewals with CCR. Without timely registration in the CCR system, the District may be limited in its eligibility to receive ARRA Federal funds and Federal Direct funds.

Recommendation: The District should continue its efforts to ensure timely renewal in the Central Contractor Registration Web site on an annual basis as required.

District Contact Person: Jay Pearlman, Director of Financial Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-138.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*FRANKLIN 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
2008-123 (2) and 2009-138 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Earmarking	Improvements were needed in the District's outreach procedures to ensure that supplemental educational services were provided to eligible students on a timely basis.	Corrected	
2009-138 (1)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) / Subrecipient Monitoring and Matching	The District did not properly monitor grant and subgrant supported activities and ensure compliance with matching requirements for the Twenty-First Century program resulting in questioned costs of \$158,704.	Partially corrected	The District established procedures to monitor grant and subgrant activities. Final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.

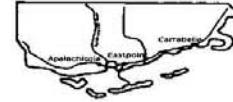
EXHIBIT A
MANAGEMENT'S RESPONSE



Nina M. Marks
Superintendent

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Working Together
Making A Difference

David W. Martin, CPA
State of Florida Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

March 2, 2010

Re: Statement of explanation concerning audit findings

Dear Mr. Martin,

Please accept this letter as my response to the findings in your audit of the Franklin County District School Board for the fiscal year ending June 30, 2009.

The ten (10) findings pertained to procedures to ensure the proper reporting of account balances and transactions, monitoring payments to the construction manager, timely updating certain capital asset subsidiary records for our new school, development of a formal fraud policy, improving security controls related to access privileges, compliance with Florida Statutes Section 1011.71 in connection with proper use of capital outlay millage moneys, reporting of instructional contact hours for adult general education courses, collection review/evaluation and written notifications of collection of social security numbers, enhancement and documentation of procedures to ensure proper receipt of services before payment, and timely registration in the Central Registration database.

During the audit, and then at the formal exit conference, your staff discussed the findings with us, and gave us recommendations for correction. We agree with the findings, and accept and appreciate the recommendations. As time and available staff permit, we will endeavor to make the recommended corrections.

As in prior years, we appreciate the professional and courteous manner in which your staff conducted the audit. We view your audits as extremely valuable in guiding our stewardship of the funds entrusted to us by taxpayers for the benefit of the children of Franklin County. Thank you all.

Sincerely,

Nina M. Marks
Superintendent

Board Meets First Thursday After First Monday in Each Month

George Thompson
District 1

David Hinton
District 2

Teresa Ann Martin
District 3

Jimmy Gander
District 4
Chair

Carlton Whaley
District 5
Vice Chair

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