

PUTNAM 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

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

	<u>District No.</u>
John D. Milton, Chair to 11-17-08	1
Terry Wright from 11-18-08	2
Thomas D. Townsend to 11-17-08	2
Lisa Parsons, Vice Chair to 11-17-08, Chair from 11-18-08	3
C. L. Overturf, Jr., Vice Chair from 11-18-08	4
Joann Barber	5
Thomas D. Townsend, Superintendent from 11-18-08	
David M. Buckles, Superintendent to 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 Martin A. Schneider, CPA, and the audit was supervised by Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was George W. Allbritton, CISA, and supervised by 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.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The District needed to enhance its controls over documenting students' attendance hours for adult general education courses reported to the Florida Department of Education.

Finding No. 2: The information technology (IT) access privileges of some former employees were not removed timely.

Finding No. 3: The District's security controls related to user authentication and protection of social security numbers needed improvement.

Finding No. 4: The District lacked written policies and procedures for certain IT functions.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Education Technology, and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance findings as summarized below.

Federal Awards Finding No. 1: The District did not make a determination of the portion of a net \$2.5 million transfer of medical insurance refunds, from an internal service fund to the General Fund, that should have been credited to Federal programs.

Federal Awards Finding No. 2: The District charged expenditures of \$18,108 to the Improving Teacher Quality program for obligations not incurred within the grant period, resulting in questioned costs.

Federal Awards Finding No. 3: The District needed to establish procedures to ensure that contracts involving Federal funds contain certain provisions required by Federal regulations.

Audit Objectives and Scope

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

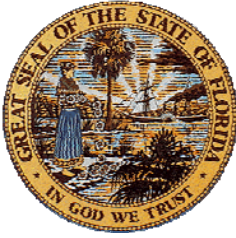
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a 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. 2009-169.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam 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 9 percent of the assets and 44 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Children's Reading Center Charter School, the discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Putnam County District School Board as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 48 through 51) 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 24, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Putnam 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 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 HIGHLIGHTS

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

- In total, net assets decreased \$4,199,843.71, or 4.7 percent.
- General revenues total \$105,887,168.53, or 76.8 percent of all revenues in the 2008-09 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$32,029,337.22, or 23.2 percent of all revenues in the 2008-09 fiscal year.
- Expenses total \$142,116,349.46. Only \$32,029,337.22 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$4,199,843.71.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$3,501,894.44 at June 30, 2009, or 4.1 percent of total General Fund expenditures, compared to \$1,855,825.63, or 2.0 percent at June 30, 2008.

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, this report presents certain required supplementary information, which includes the MD&A, the budgetary comparison schedule, the schedule of funding progress for other postemployment benefits, and the ten-year claims development information for the North East Florida Educational Consortium (NEFEC) Risk Management Property/Casualty Program.

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 and business-type 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. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in three 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.
- Business-type activities – The District is the fiscal agent for NEFEC, which provides various programs and services to 15 members including the school districts of Baker, Bradford, Columbia, Dixie, Flagler, Gilchrist, Hamilton, Lafayette, Levy, Nassau, Putnam, Suwannee, and Union Counties, as well as the P. K. Yonge Developmental Research School and the Florida School for the Deaf and Blind. NEFEC charges fees to cover the cost of certain services it provides.
- Component unit – The District presents one separate legal entity in this report, The Children's Reading Center Charter School. Although a legally separate organization, the charter school is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

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

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses the enterprise funds to account for NEFEC, including the Employee Benefits (Group Health) Program and the Risk Management (Property/Casualty) Program, as well as other programs and services.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses such a fund to account for the Putnam County District School Board Health Insurance Program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements. During the 2008-09 fiscal year, the District transferred all the assets of this fund to the General Fund for current operating purposes and to be held for future payments of employee health insurance premiums.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District's major enterprise funds are the NEFEC Employee Benefits (Group Health) Program, the NEFEC Risk Management (Property/Casualty) Program, and the NEFEC (Other Than Insurance-Related) Programs. The internal service fund is shown in a separate column in the proprietary funds financial statements.

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-09	6-30-08	6-30-09	6-30-08	6-30-09	6-30-08
Current and Other Assets	\$ 17,004,244.23	\$ 20,403,997.79	\$ 40,325,023.63	\$ 39,864,269.07	\$57,329,267.86	\$ 60,268,266.86
Capital Assets	57,615,149.10	61,301,724.52	1,773,598.96	1,406,277.75	59,388,748.06	62,708,002.27
Total Assets	74,619,393.33	81,705,722.31	42,098,622.59	41,270,546.82	116,718,015.92	122,976,269.13
Other Liabilities	2,752,619.51	4,089,505.65	2,677,097.28	2,421,123.92	5,429,716.79	6,510,629.57
Long-Term Liabilities	14,905,094.44	13,728,267.26	10,332,279.15	12,486,603.05	25,237,373.59	26,214,870.31
Total Liabilities	17,657,713.95	17,817,772.91	13,009,376.43	14,907,726.97	30,667,090.38	32,725,499.88
Net Assets:						
Invested in Capital Assets, Net of Related Debt	55,008,037.05	58,652,924.10	1,773,598.96	1,406,277.75	56,781,636.01	60,059,201.85
Restricted	10,234,748.41	8,795,658.68	20,818,929.05	17,017,223.96	31,053,677.46	25,812,882.64
Unrestricted (Deficit)	(8,281,106.08)	(3,560,633.38)	6,496,718.15	7,939,318.14	(1,784,387.93)	4,378,684.76
Total Net Assets	\$ 56,961,679.38	\$63,887,949.40	\$ 29,089,246.16	\$ 26,362,819.85	\$86,050,925.54	\$ 90,250,769.25

The largest portion of the District's net assets (66 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.

An additional portion of the District's net assets represents resources whose use is subject to external restrictions such as debt service, capital projects, categorical programs, and food service operations.

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		Business-Type Activities		Total	
	6-30-09	6-30-08	6-30-09	6-30-08	6-30-09	6-30-08
Program Revenues:						
Charges for Services	\$ 1,185,609.91	\$ 1,403,996.69	\$ 21,749,369.31	\$ 23,588,574.55	\$ 22,934,979.22	\$ 24,992,571.24
Operating Grants and Contributions	7,947,014.98	8,058,517.38		15,559,880.26	7,947,014.98	23,618,397.64
Capital Grants and Contributions	1,147,343.02	6,863,637.63			1,147,343.02	6,863,637.63
General Revenues:						
Property Taxes, Levied for Operational Purposes	24,567,323.61	22,210,313.49			24,567,323.61	22,210,313.49
Property Taxes, Levied for Debt Services		32,129.91				32,129.91
Property Taxes, Levied for Capital Projects	7,225,729.17	8,085,300.51			7,225,729.17	8,085,300.51
Grants and Contributions Not Restricted to Specific Programs	61,206,821.73	65,433,137.68	11,364,861.22		72,571,682.95	65,433,137.68
Unrestricted Investment Earnings	259,278.32	644,566.28	(183,566.86)	1,078,392.14	75,711.46	1,722,958.42
Miscellaneous	1,446,721.34	2,098,242.24			1,446,721.34	2,098,242.24
Total Revenues	104,985,842.08	114,829,841.81	32,930,663.67	40,226,846.95	137,916,505.75	155,056,688.76
Functions/Program Expenses:						
Instruction	57,490,628.38	60,861,020.05			57,490,628.38	60,861,020.05
Pupil Personnel Services	4,368,353.94	4,760,302.39			4,368,353.94	4,760,302.39
Instructional Media Services	2,291,838.67	2,491,316.44			2,291,838.67	2,491,316.44
Instruction and Curriculum Development Services	4,851,162.06	3,887,547.40			4,851,162.06	3,887,547.40
Instructional Staff Training Services	1,175,055.69	365,448.59			1,175,055.69	365,448.59
Board of Education	773,709.71	869,773.19			773,709.71	869,773.19
General Administration	684,658.94	810,075.31			684,658.94	810,075.31
School Administration	6,391,322.65	6,475,836.23			6,391,322.65	6,475,836.23
Facilities Acquisition and Construction	3,457,725.83	279,973.00			3,457,725.83	279,973.00
Fiscal Services	675,884.26	734,564.11			675,884.26	734,564.11
Food Services	6,046,417.43	6,509,088.35			6,046,417.43	6,509,088.35
Central Services	1,125,560.66	1,208,126.01			1,125,560.66	1,208,126.01
Pupil Transportation Services	6,475,348.15	7,008,099.67			6,475,348.15	7,008,099.67
Operation of Plant	7,510,380.16	8,196,883.72			7,510,380.16	8,196,883.72
Maintenance of Plant	3,061,585.63	3,549,426.15			3,061,585.63	3,549,426.15
Administrative Technology Services	257,066.77	293,745.88			257,066.77	293,745.88
Community Services	5,847.61	2,335.17			5,847.61	2,335.17
Interest on Long-Term Debt	145,364.12	159,293.18			145,364.12	159,293.18
Unallocated Depreciation Expense	5,124,201.44	5,975,673.51			5,124,201.44	5,975,673.51
NEFEC Employee Benefits (Group Health) Program			68,534.99	64,622.69	68,534.99	64,622.69
NEFEC Risk Management (Property/Casualty) Program			11,825,638.66	14,405,600.87	11,825,638.66	14,405,600.87
NEFEC (Other than Insurance-Related) Programs			18,310,063.71	21,437,357.67	18,310,063.71	21,437,357.67
Total Functions/Program Expenses	111,912,112.10	114,438,528.35	30,204,237.36	35,907,581.23	142,116,349.46	150,346,109.58
Increase (Decrease) in Net Assets	\$ (6,926,270.02)	\$ 391,313.46	\$ 2,726,426.31	\$ 4,319,265.72	\$ (4,199,843.71)	\$ 4,710,579.18

The largest revenue source is the State of Florida. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. During the 2008-09 fiscal year, FEFP funding decreased \$6,689,577 due to declining enrollment and reduced per student FTE funding. Student enrollment decreased by 252 students in the 2008-09 fiscal year and is expected to decline in the 2009-10 fiscal year. Other State revenues are primarily for categorical programs and the acquisition, construction, and maintenance of educational facilities. The reduction in capital grants and contributions was caused by a reduction in Legislative appropriations for construction of school facilities.

Instruction expenses represent 51.4 percent of total governmental expenses in the 2008-09 fiscal year. Instruction expenses decreased by \$3,370,391.67, or 5.5 percent, from the previous fiscal year due primarily to a reduction in teaching staff. Facilities acquisition and construction expenditures increased \$3,177,752.83 from the previous fiscal year primarily due to an increase in noncapitalized general renovations. Overall, expenditures were controlled through tight fiscal management.

For the business-type activities, expenses of the NEFEC Risk Management (Property/Casualty) Program decreased \$2,579,962.21, primarily due to decreases in insurance premiums and claims expenses. Also, the NEFEC (Other Than Insurance – Related) Programs’ expenses decreased \$3,127,273.96 mainly because of reduced Federal and State activities.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$3,501,894.44, while the total fund balance is \$4,916,086.40. The unreserved fund balance increased by \$1,646,068.81, and the total fund balance increased by \$1,560,597.71 during the fiscal year, primarily due to the transfer of net assets from the internal service fund into the General Fund.

The Special Revenue – Other Fund accounts for Federal grants administered through the Florida Department of Education (State) cash advance system. This fund accounted for \$10,760,184.64 in expenditures during the 2008-09 fiscal year, which represents an increase of \$2,100,010.29 from the 2007-08 year. The increase was due to an increase in Federal funding received through the State. Programs receiving significant funding increases from the prior year included the Title I (\$1,157,120.59) and Education Technology State Grants (\$732,606.53) programs.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,307,331.51, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased in the current year by \$703,206.74, primarily due to increased construction expenditures and transfers to the General Fund for maintenance and acquisition of new systems software and payment of property casualty insurance premiums.

Proprietary Funds

The enterprise funds have combined net assets of \$29,089,246.16. The increase in net assets during the current fiscal year was \$2,726,426.31. The main causes for the increase are:

- NEFEC Employee Benefits Program net assets increased by \$20,218.69 because charges for services exceeded operating program expenditures.
- NEFEC Risk Management Program net assets increased by \$3,778,241.50 from the 2007-08 fiscal year. The increase is primarily attributable to decreases in excess insurance premiums, insurance claims, and other expenses.
- NEFEC (Other Than Insurance-Related) Programs net assets decreased by \$1,072,033.88 from the 2007-08 fiscal year. The decrease is primarily attributable to a decrease in Federal and State grants nonoperating revenues while maintaining current programs.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$2,936,287.57, or 3.6 percent, a direct result of the decreases in State revenue. Actual expenditures were \$2,172,816.33 less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2,073,455.06, due primarily to the transfer of internal service fund assets.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District’s investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2009, is \$57,615,149.10 and \$1,773,598.96, respectively. This includes land; improvements

other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and computer software. Significant capital asset activities included completion of classroom projects at Melrose Elementary, James A. Long Elementary, and E. H. Miller schools. Additional information on the District's capital assets can be found in Notes 4 and 13 to the financial statements.

Long-Term Debt

At June 30, 2009, the District has bonded long-term debt outstanding of \$3,075,000, comprised of State Board of Education bonds, for its governmental activities. Additional information on the District's long-term debt can be found in Notes 5 and 6 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The School Board of Putnam County is in a precarious financial condition, and is facing uncertain economic times. The impact on pending budget reductions at the State level remains unknown at this time. In light of uncertain economic times, the School Board continually monitors the District's financial position. The School Board must continue to be vigilant in monitoring its resources to meet the demands of our public education system.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Putnam County District School Board's finances. Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to Rhonda Odom, Chief Financial Officer, Putnam County District School Board, 200 South 7th Street, Palatka, Florida 32177.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 11,547,089.35	\$ 37,078,616.93	\$ 48,625,706.28	\$ 304,343.00
Cash with Fiscal Agent		243,111.62	243,111.62	
Investments	122,451.32	747,970.97	870,422.29	
Accounts Receivable				22,583.00
Due from Other Agencies	4,708,598.54	1,061,672.82	5,770,271.36	
Due from Excess Insurer		1,193,651.29	1,193,651.29	
Inventories	626,105.02		626,105.02	
Prepaid Items				135,508.00
Capital Assets:				
Nondepreciable Capital Assets	3,609,377.74	45,000.00	3,654,377.74	
Depreciable Capital Assets, Net	54,005,771.36	1,728,598.96	55,734,370.32	181,727.00
TOTAL ASSETS	\$ 74,619,393.33	\$ 42,098,622.59	\$ 116,718,015.92	\$ 644,161.00
LIABILITIES				
Salaries and Benefits Payable	\$ 1,243,114.88	\$ 98,579.15	\$ 1,341,694.03	\$
Accounts Payable	587,693.33	1,653,342.29	2,241,035.62	12,624.00
Construction Contracts Payable - Retainage	70,327.05		70,327.05	
Due to Other Agencies		925,175.84	925,175.84	
Accrued Interest Payable	149,461.25		149,461.25	
Deferred Revenue	702,023.00		702,023.00	
Long-Term Liabilities:				
Portion Due Within One Year	1,977,000.00	4,341,318.38	6,318,318.38	
Portion Due After One Year	12,928,094.44	5,990,960.77	18,919,055.21	
Total Liabilities	17,657,713.95	13,009,376.43	30,667,090.38	12,624.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	55,008,037.05	1,773,598.96	56,781,636.01	181,727.00
Restricted for:				
State Categorical Programs	339,352.39		339,352.39	
Debt Service	550,971.99		550,971.99	
Capital Projects	8,074,400.64		8,074,400.64	
Food Service	1,117,622.40		1,117,622.40	
Risk Management Programs		20,818,929.05	20,818,929.05	
Permanent Funds	152,400.99		152,400.99	
Unrestricted	(8,281,106.08)	6,496,718.15	(1,784,387.93)	449,810.00
Total Net Assets	56,961,679.38	29,089,246.16	86,050,925.54	631,537.00
TOTAL LIABILITIES AND NET ASSETS	\$ 74,619,393.33	\$ 42,098,622.59	\$ 116,718,015.92	\$ 644,161.00

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

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**PUTNAM 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	\$ 57,490,628.38	\$ 178,471.00	\$	
Pupil Personnel Services	4,368,353.94			
Instructional Media Services	2,291,838.67			
Instruction and Curriculum Development Services	4,851,162.06			
Instructional Staff Training Services	1,175,055.69			
Board of Education	773,709.71			
General Administration	684,658.94			
School Administration	6,391,322.65			
Facilities Acquisition and Construction	3,457,725.83			269,745.75
Fiscal Services	675,884.26			
Food Services	6,046,417.43	1,007,138.91	5,144,164.98	
Central Services	1,125,560.66			
Pupil Transportation Services	6,475,348.15		2,802,850.00	
Operation of Plant	7,510,380.16			
Maintenance of Plant	3,061,585.63			450,000.00
Administrative Technology Services	257,066.77			
Community Services	5,847.61			
Interest on Long-Term Debt	145,364.12			427,597.27
Unallocated Depreciation Expense	5,124,201.44			
Total Governmental Activities	111,912,112.10	1,185,609.91	7,947,014.98	1,147,343.02
Business-Type Activities:				
NEFEC Employee Benefits (Group Health) Program	68,534.99	92,303.90		
NEFEC Risk Management (Property/Casualty) Program	11,825,638.66	15,759,739.38		
NEFEC (Other Than Insurance-Related) Program	18,310,063.71	5,897,326.03		
Total Business-Type Activities	30,204,237.36	21,749,369.31		
Total Primary Government	\$ 142,116,349.46	\$ 22,934,979.22	\$ 7,947,014.98	\$ 1,147,343.02
Component Unit:				
The Children's Reading Center Charter School	\$ 1,129,737.00	\$ 0.00	\$ 0.00	\$ 79,247.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues**Change in Net Assets**

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (57,312,157.38)	\$	\$ (57,312,157.38)	\$
(4,368,353.94)		(4,368,353.94)	
(2,291,838.67)		(2,291,838.67)	
(4,851,162.06)		(4,851,162.06)	
(1,175,055.69)		(1,175,055.69)	
(773,709.71)		(773,709.71)	
(684,658.94)		(684,658.94)	
(6,391,322.65)		(6,391,322.65)	
(3,187,980.08)		(3,187,980.08)	
(675,884.26)		(675,884.26)	
104,886.46		104,886.46	
(1,125,560.66)		(1,125,560.66)	
(3,672,498.15)		(3,672,498.15)	
(7,510,380.16)		(7,510,380.16)	
(2,611,585.63)		(2,611,585.63)	
(257,066.77)		(257,066.77)	
(5,847.61)		(5,847.61)	
282,233.15		282,233.15	
(5,124,201.44)		(5,124,201.44)	
(101,632,144.19)		(101,632,144.19)	
	23,768.91	23,768.91	
	3,934,100.72	3,934,100.72	
	(12,412,737.68)	(12,412,737.68)	
	(8,454,868.05)	(8,454,868.05)	
(101,632,144.19)	(8,454,868.05)	(110,087,012.24)	
			(1,050,490.00)
24,567,323.61		24,567,323.61	
7,225,729.17		7,225,729.17	
61,206,821.73	11,364,861.22	72,571,682.95	954,768.00
259,278.32	(183,566.86)	75,711.46	3,875.00
1,446,721.34		1,446,721.34	6,631.00
94,705,874.17	11,181,294.36	105,887,168.53	965,274.00
(6,926,270.02)	2,726,426.31	(4,199,843.71)	(85,216.00)
63,887,949.40	26,362,819.85	90,250,769.25	716,753.00
\$ 56,961,679.38	\$ 29,089,246.16	\$ 86,050,925.54	\$ 631,537.00

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

	General Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 4,080,435.72	\$ 20,875.87
Investments	8,922.90	
Due from Other Funds	1,037,580.02	
Due from Other Agencies	456,854.69	1,441,071.00
Inventories	499,611.54	
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 6,083,404.87</u></u>	<u><u>\$ 1,461,946.87</u></u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 888,115.00	\$ 328,181.69
Accounts Payable	279,203.47	102,071.24
Construction Contracts Payable - Retainage		
Due to Other Funds		1,031,693.94
Deferred Revenue		
	<u> </u>	<u> </u>
Total Liabilities	<u><u>1,167,318.47</u></u>	<u><u>1,461,946.87</u></u>
Fund Balances:		
Reserved for State Categorical Programs	339,352.39	
Reserved for Encumbrances	164,831.58	
Reserved for Inventories	499,611.54	
Reserved for Debt Service		
Reserved for Permanent Funds		
Reserved for Local Capital Improvement Tax Projects	410,396.45	
Unreserved, Reported in:		
General Fund	3,501,894.44	
Special Revenue Fund		
Capital Projects Funds		
	<u> </u>	<u> </u>
Total Fund Balances	<u><u>4,916,086.40</u></u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 6,083,404.87</u></u>	<u><u>\$ 1,461,946.87</u></u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,380,349.07	\$ 4,062,827.31	\$ 11,544,487.97
10,391.37	103,137.05	122,451.32
		1,037,580.02
44,436.43	2,760,350.34	4,702,712.46
	126,493.48	626,105.02
<u>\$ 3,435,176.87</u>	<u>\$ 7,052,808.18</u>	<u>\$ 18,033,336.79</u>
\$	\$	\$
	25,041.96	1,241,338.65
57,518.31	148,075.16	586,868.18
70,327.05		70,327.05
		1,031,693.94
	702,023.00	702,023.00
<u>127,845.36</u>	<u>875,140.12</u>	<u>3,632,250.82</u>
		339,352.39
1,264,341.63	307,425.80	1,736,599.01
	126,493.48	626,105.02
	550,971.99	550,971.99
	152,400.99	152,400.99
		410,396.45
		3,501,894.44
	887,291.26	887,291.26
2,042,989.88	4,153,084.54	6,196,074.42
<u>3,307,331.51</u>	<u>6,177,668.06</u>	<u>14,401,085.97</u>
<u>\$ 3,435,176.87</u>	<u>\$ 7,052,808.18</u>	<u>\$ 18,033,336.79</u>

PUTNAM 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	\$	14,401,085.97
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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.		57,615,149.10
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Accrued interest payable is reported in governmental activities, but not in the governmental funds.		(149,461.25)
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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:

Bonds Payable	\$ (3,075,000.00)	
Compensated Absences Payable	(8,853,894.44)	
Other Postemployment Benefits Payable	(2,976,200.00)	
		(14,905,094.44)

Total Net Assets - Governmental Activities	\$	56,961,679.38
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The accompanying notes to financial statements are an integral part of this statement.

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PUTNAM 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 - Other Fund
Revenues		
Intergovernmental:		
Federal Direct	\$ 151,047.78	\$
Federal Through State and Local	490,992.33	10,760,184.64
State	52,607,446.98	
Local:		
Property Taxes	24,567,323.61	
Charges for Services - Food Service		
Impact Fees		
Miscellaneous	1,542,750.60	
Total Revenues	79,359,561.30	10,760,184.64
Expenditures		
Current - Education:		
Instruction	51,440,664.99	5,010,025.84
Pupil Personnel Services	3,299,373.64	985,188.36
Instructional Media Services	2,135,855.18	115,801.34
Instruction and Curriculum Development Services	1,880,744.82	2,888,752.72
Instructional Staff Training Services	167,455.80	999,198.73
Board of Education	773,709.71	
General Administration	474,882.26	201,936.52
School Administration	6,281,344.54	
Facilities Acquisition and Construction	83,696.59	7,995.35
Fiscal Services	666,161.77	
Food Services	57,058.25	
Central Services	1,100,373.43	
Pupil Transportation Services	5,648,928.18	51,829.01
Operation of Plant	7,430,434.83	3,295.02
Maintenance of Plant	3,016,207.88	
Administrative Technology Services	248,342.13	
Community Services	636.57	4,708.78
Fixed Capital Outlay:		
Facilities Acquisition and Construction	34,279.55	
Other Capital Outlay	52,289.95	491,452.97
Debt Service:		
Principal		
Interest and Fiscal Charges		
Total Expenditures	84,792,440.07	10,760,184.64
Excess (Deficiency) of Revenues Over Expenditures	(5,432,878.77)	
Other Financing Sources (Uses)		
Transfers In	7,188,392.09	
Insurance Loss Recoveries	36,593.73	
Transfers Out	(231,509.34)	
Total Other Financing Sources (Uses)	6,993,476.48	
Net Change in Fund Balances	1,560,597.71	
Fund Balances, Beginning	3,355,488.69	
Fund Balances, Ending	\$ 4,916,086.40	\$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	4,953,224.40	151,047.78
	1,226,439.77	16,204,401.37
		53,833,886.75
7,225,729.17		31,793,052.78
	1,007,138.91	1,007,138.91
	276,441.59	276,441.59
36,456.68	104,071.89	1,683,279.17
7,262,185.85	7,567,316.56	104,949,248.35
		56,450,690.83
		4,284,562.00
		2,251,656.52
		4,769,497.54
		1,166,654.53
		773,709.71
		676,818.78
		6,281,344.54
2,899,409.68	449,151.29	3,440,252.91
		666,161.77
	5,936,929.50	5,993,987.75
		1,100,373.43
		5,700,757.19
		7,433,729.85
		3,016,207.88
		248,342.13
		5,345.35
646,245.91	899,707.31	1,580,232.77
	16,240.74	559,983.66
	270,000.00	270,000.00
	145,336.74	145,336.74
3,545,655.59	7,717,365.58	106,815,645.88
3,716,530.26	(150,049.02)	(1,866,397.53)
	3,579.62	7,191,971.71
		36,593.73
(4,419,737.00)	(79,248.00)	(4,730,494.34)
(4,419,737.00)	(75,668.38)	2,498,071.10
(703,206.74)	(225,717.40)	631,673.57
4,010,538.25	6,403,385.46	13,769,412.40
\$ 3,307,331.51	\$ 6,177,668.06	\$ 14,401,085.97

PUTNAM 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 **\$ 631,673.57**

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. The following details the amount of depreciation expense in excess of capital outlays in the current period:

Fixed Capital Outlay	\$ 2,140,216.43	
Depreciation Expense	<u>(5,826,791.85)</u>	(3,686,575.42)

Repayment of bond principal 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 bond principal that was repaid in the current period.	270,000.00
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Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities.	(27.08)
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In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.	(9,827.18)
--	------------

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.	(1,437,000.00)
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Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.	<u>(2,694,513.91)</u>
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Change in Net Assets - Governmental Activities **\$ (6,926,270.02)**

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2009**

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	NEFEC Employee Benefits (Group Health) Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC (Other Than Insurance-Related) Programs	Total	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 1,028,921.61	\$ 28,271,437.03	\$ 7,778,258.29	\$ 37,078,616.93	\$ 2,601.38
Cash with Fiscal Agent	143,111.62	100,000.00		243,111.62	
Investments	10,702.78	535,418.17	201,850.02	747,970.97	
Due From Other Agencies	106,087.25	8,432.98	947,152.59	1,061,672.82	5,886.08
Due From Excess Insurer		1,193,651.29		1,193,651.29	
Total Current Assets	1,288,823.26	30,108,939.47	8,927,260.90	40,325,023.63	8,487.46
Noncurrent Assets:					
Nondepreciable Capital Assets			45,000.00	45,000.00	
Depreciable Capital Assets, Net	3,899.76	11,757.55	1,712,941.65	1,728,598.96	
Total Noncurrent Assets	3,899.76	11,757.55	1,757,941.65	1,773,598.96	
TOTAL ASSETS	\$ 1,292,723.02	\$ 30,120,697.02	\$ 10,685,202.55	\$ 42,098,622.59	\$ 8,487.46
LIABILITIES					
Current Liabilities:					
Salaries and Benefits Payable	\$ 1,214.00	\$ 2,633.54	\$ 94,731.61	\$ 98,579.15	\$ 1,776.23
Accounts Payable	48.06	2,254.44	1,651,039.79	1,653,342.29	825.15
Due to Other Funds					5,886.08
Due to Other Agencies	925,175.84			925,175.84	
Compensated Absences Payable	1,509.85	5,944.16	61,864.37	69,318.38	
Estimated Insurance Claims Payable		4,272,000.00		4,272,000.00	
Total Current Liabilities	927,947.75	4,282,832.14	1,807,635.77	7,018,415.66	8,487.46
Noncurrent Liabilities:					
Compensated Absences Payable	15,202.57	59,851.22	622,906.98	697,960.77	
Estimated Insurance Claims Payable		5,293,000.00		5,293,000.00	
Total Noncurrent Liabilities	15,202.57	5,352,851.22	622,906.98	5,990,960.77	
Total Liabilities	943,150.32	9,635,683.36	2,430,542.75	13,009,376.43	8,487.46
NET ASSETS					
Invested in Capital Assets	3,899.76	11,757.55	1,757,941.65	1,773,598.96	
Unrestricted	345,672.94	20,473,256.11	6,496,718.15	27,315,647.20	
Total Net Assets	349,572.70	20,485,013.66	8,254,659.80	29,089,246.16	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,292,723.02	\$ 30,120,697.02	\$ 10,685,202.55	\$ 42,098,622.59	\$ 8,487.46

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

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

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	NEFEC Employee Benefits (Group Health) Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC (Other Than Insurance-Related) Programs	Total	
OPERATING REVENUES					
Charges for Services	\$ 92,303.90	\$ 300,729.10	\$ 4,650,805.94	\$ 5,043,838.94	\$
Charges for Sales			279,350.76	279,350.76	
Premium Revenues		15,459,010.28		15,459,010.28	9,346,990.47
Other Operating Revenues			967,169.33	967,169.33	
Total Operating Revenues	92,303.90	15,759,739.38	5,897,326.03	21,749,369.31	9,346,990.47
OPERATING EXPENSES					
Salaries	46,185.70	183,165.53	5,221,782.73	5,451,133.96	34,598.16
Employee Benefits	12,038.28	46,929.66	1,323,588.15	1,382,556.09	10,694.50
Purchased Services	7,129.24	390,007.74	9,311,917.13	9,709,054.11	9,532,888.48
Energy Services			59,129.86	59,129.86	
Materials and Supplies	1,881.85	2,804.23	1,354,021.42	1,358,707.50	
Capital Outlay		6,535.36	371,893.85	378,429.21	
Insurance Claims		3,066,682.44		3,066,682.44	
Excess Insurance Premiums		6,850,872.43		6,850,872.43	
Other Expenses		1,276,696.29	395,471.93	1,672,168.22	13,607.45
Depreciation	1,299.92	1,944.98	272,258.64	275,503.54	
Total Operating Expenses	68,534.99	11,825,638.66	18,310,063.71	30,204,237.36	9,591,788.59
Operating Income (Loss)	23,768.91	3,934,100.72	(12,412,737.68)	(8,454,868.05)	(244,798.12)
NONOPERATING REVENUES					
Interest	(3,550.22)	(155,859.22)	(24,157.42)	(183,566.86)	11,761.58
Federal Grants			5,732,319.15	5,732,319.15	
State Grants			5,632,542.07	5,632,542.07	
Total Nonoperating Revenues	(3,550.22)	(155,859.22)	11,340,703.80	11,181,294.36	11,761.58
Income (Loss) Before Transfers	20,218.69	3,778,241.50	(1,072,033.88)	2,726,426.31	(233,036.54)
Transfers In					231,509.34
Transfers Out					(2,692,986.71)
Change in Net Assets	20,218.69	3,778,241.50	(1,072,033.88)	2,726,426.31	(2,694,513.91)
Total Net Assets - Beginning	329,354.01	16,706,772.16	9,326,693.68	26,362,819.85	2,694,513.91
Total Net Assets - Ending	\$ 349,572.70	\$ 20,485,013.66	\$ 8,254,659.80	\$ 29,089,246.16	\$ 0.00

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

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

	Business-Type Activities - Enterprise Funds				Governmental Activities Internal Service Fund
	NEFEC Employee Benefits (Group Health) Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC (Other Than Insurance-Related) Programs	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Board Funds and Participants	\$ 92,303.90	\$ 15,759,739.38	\$ 4,959,791.09	\$ 20,811,834.37	\$ 9,346,990.47
Cash Payments to Suppliers for Goods and Services	(8,963.03)	(7,853,740.86)	(11,260,761.84)	(19,123,465.73)	(9,545,670.78)
Cash Payments to Employees for Services	(57,694.13)	(234,312.88)	(6,596,700.89)	(6,888,707.90)	(43,516.43)
Cash Payments for Insurance Claims		(5,244,682.44)		(5,244,682.44)	
Cash Received for Other Operating Activities	375,243.39	225,007.72	967,169.33	1,567,420.44	
Cash Payments for Other Operating Activities		(674,999.98)		(674,999.98)	
Net Cash Provided (Used) by Operating Activities	400,890.13	1,977,010.94	(11,930,502.31)	(9,552,601.24)	(242,196.74)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Cash Received from Federal and State Grants			11,168,121.94	11,168,121.94	
Transfers Out					(2,461,477.37)
Net Cash Provided (Used) by Noncapital Financing Activities			11,168,121.94	11,168,121.94	(2,461,477.37)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and Construction of Capital Assets			(642,824.75)	(642,824.75)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of Investments	8,530.38	13,587,633.16	99,639.22	13,695,802.76	13,699.21
Interest	1,330.28	250,735.50	129,126.79	381,192.57	18,726.57
Net Cash Provided by Investing Activities	9,860.66	13,838,368.66	228,766.01	14,076,995.33	32,425.78
Net Increase (Decrease) in Cash and Cash Equivalents	410,750.79	15,815,379.60	(1,176,439.11)	15,049,691.28	(2,671,248.33)
Cash and Cash Equivalents, Beginning	761,282.44	12,556,057.43	8,954,697.40	22,272,037.27	2,673,849.71
Cash and Cash Equivalents, Ending	\$ 1,172,033.23	\$ 28,371,437.03	\$ 7,778,258.29	\$ 37,321,728.55	\$ 2,601.38
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 23,768.91	\$ 3,934,100.72	\$ (12,412,737.68)	\$ (8,454,868.05)	\$ (244,798.12)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	1,299.92	1,944.98	272,258.64	275,503.54	
Changes in Assets and Liabilities:					
(Increase) Decrease in Due From Other Agencies	(21,259.38)	8,453.63	29,634.39	16,828.64	(5,886.08)
Decrease in Due From Excess Insurers	94,991.80	216,554.09		311,545.89	
Increase (Decrease) in Accounts Payable	48.06	(1,824.79)	952,610.35	950,833.62	825.15
Increase (Decrease) in Salaries and Benefits Payable	356.16	(1,212.31)	(77,837.80)	(78,693.95)	1,776.23
Increase (Decrease) in Due to Other Agencies	301,510.97		(720,938.00)	(419,427.03)	
Increase in Due to Other Funds					5,886.08
Decrease in Estimated Insurance Claims Payable		(2,178,000.00)		(2,178,000.00)	
Increase (Decrease) in Compensated Absences Payable	173.69	(3,005.38)	26,507.79	23,676.10	
Total Adjustments	377,121.22	(1,957,089.78)	482,235.37	(1,097,733.19)	2,601.38
Net Cash Provided (Used) by Operating Activities	\$ 400,890.13	\$ 1,977,010.94	\$ (11,930,502.31)	\$ (9,552,601.24)	\$ (242,196.74)
Cash and Cash Equivalents:					
Cash and Cash Equivalents	\$ 1,028,921.61	\$ 28,271,437.03	\$ 7,778,258.29	\$ 37,078,616.93	\$ 2,601.38
Cash with Fiscal Agent	143,111.62	100,000.00		243,111.62	
Cash and Cash Equivalents, End of Year	\$ 1,172,033.23	\$ 28,371,437.03	\$ 7,778,258.29	\$ 37,321,728.55	\$ 2,601.38
Supplemental Disclosure of Noncash Investing Activity:					
Unrealized Loss on Investments	\$ (4,880.50)	\$ (406,594.82)	\$ (153,284.21)	\$ (564,759.53)	\$ (6,964.99)

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 698,621.67
Investments	<u>6,184.33</u>
TOTAL ASSETS	<u><u>\$ 704,806.00</u></u>
LIABILITIES	
Accounts Payable	\$ 11,190.00
Internal Accounts Payable	<u>693,616.00</u>
TOTAL LIABILITIES	<u><u>\$ 704,806.00</u></u>

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

**PUTNAM 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 Putnam County School District is considered part of the Florida system of public education. The governing body of the school district is the Putnam 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 Putnam 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 unit is included within the District School Board's reporting entity. The Children's Reading Center Charter School is presented as a discretely presented component unit in the component unit columns in the government-wide financial statements. The general operating authority of the charter school is contained in Section 1002.33, Florida Statutes. The charter school is owned by The Children's Reading Center, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The charter school operates under a charter established pursuant to a contract between The Children's Reading Center, Inc., and the Putnam County District School Board, its sponsor. The current charter is effective until June 30, 2015; at the end of that term, the District may choose not to renew under grounds specified in the charter. During the term of the charter, the District may terminate the charter if good cause is shown. The charter school is considered a component unit of the District because it is fiscally dependent on the District to levy taxes for its support. The financial data reported in the accompanying financial statements was derived from the audit report of the charter school for the fiscal year ended June 30, 2009, which is available at the District's administrative offices.

➤ **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 unit. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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 and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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

Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while the 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 or business segment is self-financing or draws from the general revenues of the District.

The effects of interfund activity have been eliminated from the government-wide financial statements, except for the interfund services provided and used and the net residual amounts between governmental and business-type activities.

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- 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.

The District reports the following major enterprise funds:

- NEFEC Employee Benefits (Group Health) Program – to account for the North East Florida Educational Consortium group health self-insurance program.
- NEFEC Risk Management (Property/Casualty) Program – to account for the North East Florida Educational Consortium property and casualty self-insurance program.
- NEFEC (Other Than Insurance-Related) Programs – to account for the financial activities of the North East Florida Educational Consortium other than the NEFEC Employee Benefits and NEFEC Risk Management Programs.

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

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

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

➤ **Basis of Accounting**

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

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

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

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for information technology services, and premiums for property, casualty, and workers' compensation insurance. Operating expenses include purchased services, salaries and benefits, materials and supplies, capital outlay, and depreciation related to information technology services provided, and purchased services, insurance claims, excess insurance premiums, and salaries and benefits related to insurance programs. The principal operating revenues of the District's internal service fund are charges for employee health insurance premiums. Operating expenses consist primarily of purchased services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Children's Reading Center Charter School, shown as a discretely presented component unit, is accounted for as a not-for-profit organization and uses the not-for-profit accounting model.

➤ **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. The statement of cash flows also considers as cash and cash equivalents those amounts on deposit with fiscal agents. Investments classified as cash equivalents consist of a money market mutual fund and the

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

State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

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

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within LGIP.

Investments made locally consist of a money market mutual fund and common stock held by the Weeks Trust Fund and are reported at fair value. The District's money market mutual fund, invested in short-term corporate and asset-backed securities, is structured within the confines of Rule 2a-7 under the Securities and Exchange Commission's Investment Company Act of 1940, as amended, whereby shares are owned in the fund rather than the underlying investments.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the moving-average basis, except that General Fund transportation inventory is stated at cost based on the last invoice, which approximates the first-in, first-out method, and 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. Although the costs of inventories are recorded as expenditures when used rather than purchased, inventory balances are offset by a fund balance reserve in applicable governmental funds to indicate these balances do not constitute available expendable resources, even though they are a component of current assets.

➤ **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 \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased

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

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 construction.

Capital assets are depreciated using the unweighted average composite method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	10 - 35 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 is reported in the governmental fund financial statements only if it has matured, for example, 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

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

close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 16, 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 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 Putnam 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.

➤ **School Impact Fees**

The District receives impact fees based on an ordinance adopted by the Putnam County Commission in October 2006. The fee is collected by Putnam County for all new residential construction, and can only be used to provide growth-necessitated capital improvements to educational and ancillary plants of the District. Because the impact fees are similar to capital-type special assessments, they are reported as program revenues in the government-wide financial statements.

➤ **Federal Revenue Sources**

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting

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

agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investment	Maturities	Fair Value
State Board of Administration (SBA):		
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	\$ 792,977.58
Debt Service Accounts	6 Months	83,084.04
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1)	46 Day Average	51,030.97
Dreyfus Cash Management - Institutional Shares (1)	42 Day Average	40,756,088.31
Common Stock		545.00
Total Investments		<u>\$ 41,683,725.90</u>

(1) Investments considered cash equivalents for financial statement reporting purposes.

Interest Rate Risk

- The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of a portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity

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

of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA LGIP or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choice.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in the Dreyfus Cash Management - Institutional Shares is rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.

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

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	\$ 1,546,386.35	\$	\$	\$ 1,546,386.35
Construction in Progress	3,364,576.62	1,172,057.20	2,473,642.43	2,062,991.39
Total Capital Assets Not Being Depreciated	4,910,962.97	1,172,057.20	2,473,642.43	3,609,377.74
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,537,641.36	12,632.13		6,550,273.49
Buildings and Fixed Equipment	111,770,375.84	2,461,010.30		114,231,386.14
Furniture, Fixtures, and Equipment	13,115,930.76	720,521.85	692,931.40	13,143,521.21
Motor Vehicles	10,217,883.16	236,627.38	1,656,596.00	8,797,914.54
Computer Software	290,014.77	11,010.00		301,024.77
Total Capital Assets Being Depreciated	141,931,845.89	3,441,801.66	2,349,527.40	143,024,120.15
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,914,622.77	256,949.21		4,171,571.98
Buildings and Fixed Equipment	65,036,448.84	3,672,551.40		68,709,000.24
Furniture, Fixtures, and Equipment	8,986,003.78	1,189,498.83	692,931.40	9,482,571.21
Motor Vehicles	7,316,994.18	702,590.41	1,656,596.00	6,362,988.59
Computer Software	287,014.77	5,202.00		292,216.77
Total Accumulated Depreciation	85,541,084.34	5,826,791.85	2,349,527.40	89,018,348.79
Total Capital Assets Being Depreciated, Net	56,390,761.55	(2,384,990.19)		54,005,771.36
Governmental Activities Capital Assets, Net	\$ 6,130,172.42	\$ (1,212,932.99)	\$ 2,473,642.43	\$ 5,615,449.10

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

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 45,000.00	\$	\$	\$ 45,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings		5,343.00		5,343.00
Buildings and Fixed Equipment	2,128,568.12	161,118.50		2,289,686.62
Furniture, Fixtures, and Equipment	939,224.12	78,366.38	22,900.33	994,690.17
Motor Vehicles	69,160.00			69,160.00
Computer Software	526,070.61	416,464.80		942,535.41
Total Capital Assets Being Depreciated	3,663,022.85	661,292.68	22,900.33	4,301,415.20
Less Accumulated Depreciation for:				
Improvements Other Than Buildings		1068.60		1068.60
Buildings and Fixed Equipment	991,039.06	99,957.51		1,090,996.57
Furniture, Fixtures, and Equipment	745,573.03	81,040.67	4,432.40	822,181.30
Motor Vehicles	39,730.00	9,810.00		49,540.00
Computer Software	525,403.01	83,626.76		609,029.77
Total Accumulated Depreciation	2,301,745.10	275,503.54	4,432.40	2,572,816.24
Total Capital Assets Being Depreciated, Net	1,361,277.75	385,789.14	18,467.93	1,728,598.96
Business-Type Activities Capital Assets, Net	\$ 1,406,277.75	\$ 385,789.14	\$ 18,467.93	\$ 1,773,598.96

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 702,590.41
Unallocated	5,124,201.44
Total Depreciation Expense - Governmental Activities	\$ 5,826,791.85
BUSINESS-TYPE ACTIVITIES	
North East Florida Educational Consortium:	
Employee Benefits (Group Health) Program	\$ 1,299.92
Risk Management (Property/Casualty) Program	1,944.98
Other Than Insurance-Related Programs	272,258.64
Total Depreciation Expense - Business-Type Activities	\$ 275,503.54

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

5. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 180,000	4.375 - 4.750	2019
Series 2002B, Refunding	1,245,000	4.000 - 5.375	2015
Series 2004A	380,000	3.350 - 4.625	2024
Series 2005A	55,000	4.0 - 5.0	2025
Series 2005A, Refunding	285,000	5.0	2017
Series 2005B, Refunding	275,000	5.0	2018
Series 2008A	655,000	3.25 - 5.00	2028
Total Bonds Payable	<u>\$ 3,075,000</u>		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 429,461.25	\$ 280,000.00	\$ 149,461.25
2011	435,380.00	300,000.00	135,380.00
2012	445,271.25	325,000.00	120,271.25
2013	436,633.75	330,000.00	106,633.75
2014	449,833.75	360,000.00	89,833.75
2015-2019	1,079,862.50	835,000.00	244,862.50
2020-2024	526,845.00	410,000.00	116,845.00
2025-2028	263,912.50	235,000.00	28,912.50
Total	<u>\$ 4,067,200.00</u>	<u>\$ 3,075,000.00</u>	<u>\$ 992,200.00</u>

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

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 3,345,000.00	\$	\$ 270,000.00	\$ 3,075,000.00	\$ 280,000.00
Compensated Absences Payable	8,844,067.26	4,842,969.86	4,833,142.68	8,853,894.44	1,697,000.00
Other Postemployment Benefits Payable	1,539,200.00	2,708,500.00	1,271,500.00	2,976,200.00	
Total Governmental Activities	<u>\$ 13,728,267.26</u>	<u>\$ 7,551,469.86</u>	<u>\$ 6,374,642.68</u>	<u>\$ 14,905,094.44</u>	<u>\$ 1,977,000.00</u>
BUSINESS-TYPE ACTIVITIES					
Estimated Insurance Claims Payable	\$ 11,743,000.00	\$ 3,066,682.44	\$ 5,244,682.44	\$ 9,565,000.00	\$ 4,272,000.00
Compensated Absences Payable	743,603.05	308,271.11	284,595.01	767,279.15	69,318.38
Total Business-Type Activities	<u>\$ 12,486,603.05</u>	<u>\$ 3,374,953.55</u>	<u>\$ 5,529,277.45</u>	<u>\$ 10,332,279.15</u>	<u>\$ 4,341,318.38</u>

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

7. 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 Governmental:		
General	\$ 1,037,580.02	\$
Special Revenue - Other		1,031,693.94
Internal Service		5,886.08
Total	<u>\$ 1,037,580.02</u>	<u>\$ 1,037,580.02</u>

Interfund receivables and payables primarily represent activities in the normal course of operations and are expected to be repaid within one year.

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Governmental:		
General	\$ 7,188,392.09	\$ 231,509.34
Capital Projects - Local Capital Improvement		4,419,737.00
Nonmajor Governmental	3,579.62	79,248.00
Internal Service	231,509.34	2,692,986.71
Total	<u>\$ 7,423,481.05</u>	<u>\$ 7,423,481.05</u>

The transfers from the Capital Projects – Local Capital Improvement Fund to the General Fund were for facilities maintenance work and property casualty insurance premiums. Transfers from the internal service fund were for current operating purposes and to be held for future payments of employee health insurance premiums.

8. 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.

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$24,833.98 at June 30, 2009.

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

9. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Governmental Funds:	
Florida Education Finance Program	\$ 34,700,965.00
Categorical Educational Programs:	
Class Size Reduction - Operating	11,295,629.00
Transportation	2,802,850.00
Instructional Materials	1,081,787.00
Preschool Projects	877,819.86
School Recognition	469,245.00
Florida Teachers Lead	161,275.00
Excellent Teaching	65,870.36
Workforce Development Program	487,743.00
Gross Receipts Tax (Public Education Capital Outlay)	450,000.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	427,597.27
Discretionary Lottery	263,873.00
Food Service Supplement	158,173.00
Miscellaneous	591,059.26
Subtotal - Governmental	53,833,886.75
Enterprise Funds:	
Florida Reading Initiative and Expansion	2,948,780.00
Web-Based Instruction Program	836,040.00
Regional Consortia	711,750.00
Other	1,135,972.07
Subtotal - Enterprise	5,632,542.07
Total	\$ 59,466,428.82

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

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

10. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.207	\$ 22,052,768.78
Basic Discretionary Local Effort	0.498	2,109,137.48
Supplemental Discretionary Local Effort	0.250	1,058,803.95
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.750</u>	<u>7,411,627.69</u>
Total	<u><u>7.705</u></u>	<u><u>\$ 32,632,337.90</u></u>

11. 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 except for members classified as special risk who are eligible for normal retirement benefits at age 55 or any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments.

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

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

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 180 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$583,697.06.

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
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 \$6,318,862.11, \$6,533,013.56, and \$6,220,002.79, 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.

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

12. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The Other Postemployment Benefits Program (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 self-insured health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the District. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The District has no medical liability for retirees after age 65 because the retirees pay the full cost of benefits. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Contribution requirements of the District and Plan members are established and may be amended 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 is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 210 retirees received postemployment benefits. The District provided required contributions of \$1,271,500 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling \$831,062, which represents 1.2 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation for other postemployment benefits:

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Description	Amount
Normal Cost (service cost for one year)	\$ 1,688,900
Amortization of Unfunded Actuarial Accrued Liability	925,300
Interest on Normal Cost and Amortization	104,600
Annual Required Contribution	2,718,800
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	(10,300)
Annual OPEB Cost (Expense)	2,708,500
Contribution Toward the OPEB Cost	(1,271,500)
Increase in Net OPEB Obligation	1,437,000
Net OPEB Obligation, Beginning of Year	1,539,200
Net OPEB Obligation, End of Year	<u>\$ 2,976,200</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, and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2007-08	\$ 2,614,200	\$ 1,075,000	41.1%	\$ 1,539,200
2008-09	2,708,500	1,271,500	46.9%	2,976,200

Funded Status and Funding Progress. As of June 30, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$27,759,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$27,759,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$74,696,501 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37.2 percent.

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

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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 June 30, 2008, used the projected unit 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 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 7.5 percent initially for the 2007-08 fiscal year, reduced to an ultimate rate of 4.5 percent after 52 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

13. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Maintenance & Facilities - General Renovations:			
Architect	\$ 250,000.00	\$ 110,687.35	\$ 139,312.65
Contractor	42,254.70	11,189.71	31,064.99
Direct Materials	5,560.00		5,560.00
Transportation - Replacement Fuel Tanks:			
Contractor	192,446.00		192,446.00
Palatka High School Classrooms:			
Architect	127,368.00	124,531.48	2,836.52
Contractor	1,741,609.75	732,879.03	1,008,730.72
Total	<u>\$ 2,359,238.45</u>	<u>\$ 979,287.57</u>	<u>\$ 1,379,950.88</u>

14. CONSORTIUM

The District is a member of the North East Florida Educational Consortium (NEFEC). NEFEC provides for the purchase of certain materials, supplies, equipment, and services to be used by member districts. NEFEC also offers risk management programs for property and casualty (including workers' compensation) and employee benefits (dental, vision, and life) self-insurance, and information technology and other contracted services. The Consortium is governed by a board of directors composed of the superintendents of the participating districts. The Putnam County District School Board serves as the fiscal agent for

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JUNE 30, 2009**

NEFEC and has established enterprise funds to account for the related activities. Financial information applicable to the consortium is included in the business-type activities on the financial statements.

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 Putnam County District School Board is a member of the North East Florida Educational Consortium (NEFEC) (see Note 14) and participates in NEFEC's Risk Management Program relating to property and casualty insurance, 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. NEFEC's Risk Management Program for property and casualty insurance is a risk-sharing public entity pool that is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. Activities applicable to the NEFEC Risk Management Property/Casualty Program are included in the business-type activities on the financial statements.

Although not a participant itself, the Board also acts as the fiscal agent for NEFEC's Employee Benefits Program that primarily includes the employee dental, vision, and life self-insurance programs. Premiums charged to participating districts are based on each individual district's claims experience, and the program operates essentially as an individually-funded plan by each participating district, with shared administrative costs and a pooling of plan assets for working capital. Ultimate liability for claims remains with the respective districts and, accordingly, the insurance risks are not transferred to the program. Each participating district is responsible for any deficit in its account, and for payment for any pending claims should the district withdraw from the program.

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

The District's health and hospitalization insurance program is provided through purchased commercial insurance, with minimum deductibles for each line of coverage. In addition, the Board provides life insurance equivalent to each employee's salary rounded to the next \$1,000. The Board also offers a cafeteria plan to its employees in which the employees select among a variety of plan benefits.

Because of the relatively short payment pattern of the claims, there was no discounting for present value and no provision for trend (change in claims cost per unit over time) other than that inherent in the claims data.

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JUNE 30, 2009**

16. PUBLIC ENTITY RISK POOL

Fund Description. The North East Florida Educational Consortium/Risk Management Program (NEFEC/RMP), a public entity risk pool, was organized on July 1, 1982, to provide a program of property and casualty insurance coverage for its member districts. NEFEC/RMP was established under the authority set forth in Sections 1001.42(12), 111.072, 1001.42(9)(d), 1011.18(6), 440.38(6), and 768.28, Florida Statutes. NEFEC/RMP was established to formulate, develop, and administer, on behalf of the member districts, a program of group self-insurance in order to obtain lower costs for that coverage, and to develop a comprehensive loss control program. If the assets of NEFEC/RMP were to be exhausted, members would be responsible for their allocable portion of the NEFEC/RMP liabilities. NEFEC/RMP members currently include 12 districts. Members may withdraw from NEFEC/RMP by providing a 60-day written notice of intent to withdraw and may withdraw on the next anniversary date of the program. Annual assessments and increases are based on the assessment formula developed by the member districts.

Summary of Significant Accounting Policies

- **Unpaid Claims Liabilities** – NEFEC/RMP establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards. Accordingly, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability and workers' compensation. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect settlements, claim frequency, and other economic and social factors.
- **Excess Insurance** – NEFEC/RMP has entered into agreements with various insurance companies to provide specific excess coverage for claim amounts above a stated amount on an individual claim basis and aggregate excess coverage when total claims minus specific excess coverage exceed the loss fund. The amount of \$9,565,000 in excess insurance recoverable on unpaid claims was deducted from the liability for unpaid claims at June 30, 2009.
- **Investment Income** – Investment income is not treated as an offset to reserves.

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Unpaid Claims Liabilities

The following schedule presents the changes in claims liability for the past two years in the NEFEC property/casualty program:

	Reconciliation of Claims Liability	
	2008	2009
Estimated Insurance Claims Payable, Beginning of Year	<u>\$ 11,342,000</u>	<u>\$ 11,743,000</u>
Incurring Claims and Claims Adjustment Expenses:		
Provision for Insured Events of Current Year	6,551,000	5,864,682
Decrease in Provision for Insured Events of Prior Years	<u>(2,083,618)</u>	<u>(2,798,000)</u>
Total Incurred Claims and Claims Adjustment Expenses	<u>4,467,382</u>	<u>3,066,682</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to:		
Insured Events of the Current Year	2,178,000	1,554,000
Insured Events of Prior Years	401,000	3,200,000
Adjustments for Payments from Excess Insurers and Subrogation	<u>1,487,382</u>	<u>490,682</u>
Total Payments	<u>4,066,382</u>	<u>5,244,682</u>
Estimated Insurance Claims Payable, End of Year	<u><u>\$ 11,743,000</u></u>	<u><u>\$ 9,565,000</u></u>

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**PUTNAM 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 Direct	\$ 140,000.00	\$ 140,000.00	\$ 151,047.78	\$ 11,047.78
Federal Through State and Local	550,000.00	561,622.00	490,992.33	(70,629.67)
State	56,122,697.11	52,717,993.63	52,607,446.98	(110,546.65)
Local:				
Property Taxes	23,959,675.00	24,357,461.00	24,567,323.61	209,862.61
Miscellaneous	1,579,082.03	1,638,089.94	1,542,750.60	(95,339.34)
Total Revenues	82,351,454.14	79,415,166.57	79,359,561.30	(55,605.27)
Expenditures				
Current - Education:				
Instruction	50,398,761.89	51,654,297.49	51,440,664.99	213,632.50
Pupil Personnel Services	3,098,877.56	3,379,167.41	3,299,373.64	79,793.77
Instructional Media Services	2,200,950.18	2,332,835.74	2,135,855.18	196,980.56
Instruction and Curriculum Development Services	1,128,471.02	1,909,813.35	1,880,744.82	29,068.53
Instructional Staff Training Services	68,336.60	169,036.79	167,455.80	1,580.99
Board of Education	1,490,175.00	810,165.06	773,709.71	36,455.35
General Administration	459,554.43	524,791.38	474,882.26	49,909.12
School Administration	6,121,949.73	6,341,373.82	6,281,344.54	60,029.28
Facilities Acquisition and Construction	117,607.78	92,571.59	83,696.59	8,875.00
Fiscal Services	665,653.00	681,437.28	666,161.77	15,275.51
Food Services		57,058.25	57,058.25	
Central Services	973,994.00	1,135,697.04	1,100,373.43	35,323.61
Pupil Transportation Services	6,217,142.43	5,792,609.19	5,648,928.18	143,681.01
Operation of Plant	10,915,339.96	7,733,664.64	7,430,434.83	303,229.81
Maintenance of Plant	3,453,938.59	3,466,170.45	3,016,207.88	449,962.57
Administrative Technology Services	808,497.00	797,360.85	248,342.13	549,018.72
Community Services		636.57	636.57	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		34,279.55	34,279.55	
Other Capital Outlay		52,289.95	52,289.95	
Total Expenditures	88,119,249.17	86,965,256.40	84,792,440.07	2,172,816.33
Deficiency of Revenues Under Expenditures	(5,767,795.03)	(7,550,089.83)	(5,432,878.77)	2,117,211.06
Other Financing Sources (Uses)				
Transfers In	4,050,000.00	6,459,558.67	7,188,392.09	728,833.42
Insurance Loss Recoveries		77,334.77	36,593.73	(40,741.04)
Transfers Out		(231,737.44)	(231,509.34)	228.10
Total Other Financing Sources (Uses)	4,050,000.00	6,305,156.00	6,993,476.48	688,320.48
Net Change in Fund Balances	(1,717,795.03)	(1,244,933.83)	1,560,597.71	2,805,531.54
Fund Balances, Beginning	4,088,081.18	4,087,565.17	3,355,488.69	(732,076.48)
Fund Balances, Ending	\$ 2,370,286.15	\$ 2,842,631.34	\$ 4,916,086.40	\$ 2,073,455.06

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PUTNAM 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) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
June 30, 2008	\$ 0	\$ 27,759,000	\$ 27,759,000	0.0%	\$ 74,696,501	37.2%

PUTNAM COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - TEN-YEAR CLAIMS DEVELOPMENT INFORMATION -
NORTH EAST FLORIDA EDUCATIONAL CONSORTIUM RISK MANAGEMENT PROPERTY/CASUALTY PROGRAM
For the Fiscal Year Ended June 30, 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Earned Required Contribution and Investment Revenues:										
Earned	\$ 7,902,196	\$ 8,411,310	\$ 8,725,260	\$12,760,628	\$14,097,997	\$14,550,526	\$13,634,123	\$16,964,979	\$17,082,175	\$15,303,151
Excess Insurers	1,875,533	2,113,271	2,547,000	4,465,441	4,795,865	4,973,645	4,439,275	7,619,617	7,996,481	6,850,872
Total Net Earned Required Contribution and Investment Revenues	6,026,663	6,298,039	6,178,260	8,295,187	9,302,132	9,576,881	9,194,848	9,345,362	9,085,694	8,452,279
Unallocated Expenses	1,145,690	1,072,674	893,532	555,023	522,222	543,573	1,411,089	1,474,414	1,642,152	1,602,246
Estimated Incurred Claims and Expenses, End of Policy Year:										
Incurred	5,251,000	5,826,000	6,479,000	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000
Net Paid (Cumulative) as of:										
End of Policy Year	1,351,000	1,267,000	1,475,000	1,493,000	1,596,000	1,679,000	1,844,000	1,899,000	2,178,000	1,554,000
One Year Later	2,890,000	3,119,000	3,255,000	3,433,000	3,081,000	2,966,000	2,933,000	2,778,000	3,554,000	
Two Years Later	3,488,000	4,386,000	4,234,000	4,712,000	3,539,000	3,366,000	3,397,000	3,484,000		
Three Years Later	3,956,000	5,306,000	4,869,000	5,320,000	3,891,000	3,546,000	3,857,000			
Four Years Later	4,251,000	5,743,000	4,969,000	5,507,000	4,105,000	3,586,000				
Five Years Later	4,549,000	5,948,000	5,260,000	5,600,000	4,417,000					
Six Years Later	4,754,000	6,096,000	5,305,000	5,732,000						
Seven Years Later	4,824,000	6,142,000	5,336,000							
Eight Years Later	4,877,000	6,183,000								
Nine Years Later	4,932,000									
Reestimated Excess Insurers Claims and Expenses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	5,251,000	5,826,000	6,479,000	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000
One Year Later	5,278,000	6,324,000	6,569,000	6,399,000	5,545,000	5,153,000	5,332,000	5,061,000	5,529,000	
Two Years Later	5,075,000	6,557,000	5,936,000	6,513,000	4,778,000	4,685,000	4,869,000	4,557,000		
Three Years Later	4,929,000	6,392,000	5,749,000	6,245,000	4,961,000	4,353,000	4,595,000			
Four Years Later	4,792,000	6,363,000	5,553,000	6,399,000	4,946,000	4,087,000				
Five Years Later	4,878,000	6,383,000	5,763,000	6,411,000	4,849,000					
Six Years Later	5,001,000	6,576,000	5,741,000	6,092,000						
Seven Years Later	5,301,000	6,484,000	5,622,000							
Eight Years Later	5,306,000	6,465,000								
Nine Years Later	5,216,000									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	(35,000)	639,000	(857,000)	(498,000)	(2,127,000)	(2,500,000)	(2,470,000)	(1,651,000)	(1,022,000)	0

Note (1): Information relating to Excess Insurers is not available.

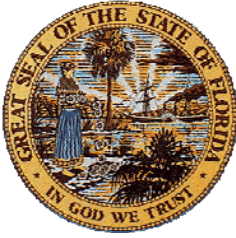
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PUTNAM 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	\$ 1,259,628.61	\$
National School Lunch Program	10.555	300	3,134,811.75	
Summer Food Service Program for Children	10.559	323	93,119.48	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	465,664.56	
Total Child Nutrition Cluster			4,953,224.40	
Florida Department of Education:				
State Administrative Expenses for Child Nutrition	10.560	304	30,000.00	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	51,531.00	
Total United States Department of Agriculture			5,034,755.40	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	50,531.38	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	379,502.42	204,549.07
Early Reading First	84.359	N/A	1,095,117.78	259,232.95
Total Direct			1,474,620.20	463,782.02
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	4,945,426.84	831,536.22
Special Education - Preschool Grants	84.173	266, 267	212,966.94	
Total Special Education Cluster			5,158,393.78	831,536.22
Adult Education - Basic Grants to States	84.002	191, 193	139,455.56	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226, 228	4,883,951.90	
Migrant Education - State Grant Program	84.011	217	321,733.63	
Title I Program for Neglected and Delinquent Children	84.013	223	2,688.27	
Career and Technical Education - Basic Grants to States	84.048	151, 161	269,427.64	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	56,084.30	
Education for Homeless Children and Youth	84.196	127	120,200.80	
Twenty-First Century Community Learning Centers	84.287	244	52,583.62	
State Grants for Innovative Programs	84.298	113	891.37	
Education Technology State Grants	84.318	121, 122	767,632.00	120,000.00
Reading First State Grants	84.357	211	1,132,888.80	594,023.38
Rural Education	84.358	110	297,442.89	
English Language Acquisition Grants	84.365	102	120,604.24	
Mathematics and Science Partnerships	84.366	235	204,426.62	
Improving Teacher Quality State Grants	84.367	224	908,362.23	
School Improvement Grants	84.377	126	179,208.97	
St. Johns River Community College:				
Career and Technical Education - Basic Grants to States	84.048	None	11,622.00	
University of South Florida:				
Mathematics and Science Partnerships	84.366	None	156,557.55	
Total Indirect			14,784,156.17	1,545,559.60
Total United States Department of Education			16,258,776.37	2,009,341.62
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	232	37,408.25	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	151,047.78	
Total Expenditures of Federal Awards			\$ 21,532,519.18	\$ 2,009,341.62

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2008-09 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam 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 Putnam County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 24, 2010



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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 Putnam 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 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 Findings Nos. 1, 2, and 3.

Internal Control Over Compliance

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

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Management's response to the finding 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 24, 2010

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Education Technology State Grants (CFDA No. 84.318); and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	\$645,975
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Adult 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's (FDOE) instructional hours reporting procedures. FDOE instructions require that records be maintained to document participation of students in on-line and open laboratory environments (i.e., assignments, tests, or attendance records).

The District reported 129,064 adult general education hours to FDOE. Our review of the hours reported to FDOE and available documentation of adult general education programs for 40 students enrolled in the 2008-09 fiscal year disclosed instances of unsupported hours reported, as follows:

- Our tests of 2,680 hours reported for 14 students enrolled at the East Palatka location disclosed that District records only supported 586.5 hours for 7 of the students, while the remaining 2,093.5 hours were unsupported.
- Our tests of 1,534 hours reported for 14 students enrolled at the Interlachen location disclosed that District records only supported 533 hours for 13 of the students, while the remaining 1,001 hours were unsupported.
- We selected 8 students from the Crescent City (CC) location and 4 others from the Migrant Education (ME) location, and no records could be provided to support these test items, totaling 843 hours for CC students and 1,334 hours for ME students.

These exceptions were mainly because when the District enrolls a student into the computer system for a laboratory class, as long as the student does not withdraw from the course, the student is automatically given credit for a predetermined number of hours for each week that the class is in session, regardless of the student's actual attendance. Further, District personnel indicated that attendance hours were not always documented because the computer system did not track student attendance; however, with implementation of a new system in July 2010, it will be possible to document actual hours, along with scheduled hours. Similar exceptions were noted in our report No. 2009-169. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly and supported by District enrollment records.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to FDOE by ensuring that records are maintained to document attendance.

Finding No. 2: Information Technology – Access Controls

Effective information technology (IT) access controls include provisions to timely remove employee access privileges when employment terminations occur. Prompt action is necessary to ensure that a former employee's access privileges are not used by the former employee or others to misappropriate District assets or misuse District data and IT resources.

Upon our request, the District's Human Resources department provided us a list of former employees and dates they terminated employment during the 2008-09 fiscal year, and the District's Media Services department provided us with dates that users' access privileges to IT resources were terminated. Our comparison of these former employees and dates disclosed eight former employees, including a purchasing director, three secretaries, three teachers, and a data entry operator, who continued to have access to certain IT resources from 14 to 99 days after their employment termination dates. Although our tests did not disclose any instances of errors or misappropriations as a result of this control deficiency, access privileges should be removed immediately upon termination to minimize the risk that the privileges could be misused by former employees or others.

Recommendation: The District should ensure that access privileges of former employees are timely removed.

Finding No. 3: Information Technology – User Authentication and Protection of Social Security Numbers

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2009-169, our audit disclosed certain District security controls related to user authentication and protection of social security numbers that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, 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 related to user authentication and protection of social security numbers to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 4: Information Technology – Written Policies and Procedures

Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. As similarly noted in our report No. 2009-169, the District lacked written policies and procedures that governed the following:

- Administering vendor-supplied identification codes, guest accounts, administrative passwords, and security devices (such as routers and firewalls).
- Defining network administration responsibilities.
- Monitoring workstations that allow administrative rights for end-users.

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

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1

Federal Agencies: United States Department of Education

Pass-Through Entity: Florida Department of Education

Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010), Education Technology State Grants (CFDA No. 84.318), and Improving Teacher Quality State Grants (CFDA No. 84.367)

Finding Type: Noncompliance

Questioned Costs: Unknown

Allowable Costs/Cost Principles - Transfer of Insurance Program Assets. Attachments A and B of *Circular A-87* issued by the United States Office of Management and Budget establish cost principles to be applied and guidance for determining allowable costs and applicable credits to Federal awards. Section 22.d.5. of Attachment B provides that whenever funds are transferred from a self-insurance reserve to other accounts (e.g., General Fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer. Section C of Attachment A specifies that, to be allowable costs under a grant program, the costs must be net of all applicable credits. This section defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs, including insurance refunds or rebates.

Before March 1994, the District provided group medical self-insurance for employees, retirees, and their dependents, and subsequent to that date, the District discontinued the self-insurance program and purchased commercial coverage. The Board accounted for and reported the activities of the self-insurance program and group commercial insurance coverage in an internal service fund. The costs of premiums incurred for these medical insurance benefits were allocated to the various programs (Federal and non-Federal) based on the number of employees in the various programs.

During the 2008-09 fiscal year, the District had net transfers from the internal service fund, totaling approximately \$2.5 million, to the General Fund for general operating purposes, which effectively offset costs previously charged for medical insurance benefits. However, District personnel did not make a determination of what portion of the transfer should have been allocated to Federal programs for premium costs previously charged to Federal programs. Without such determination, District records did not evidence that applicable refunds were made to the Federal Government for its share of the funds transferred, contrary to *Circular A-87*.

Recommendation: The District should make a determination of the portion of the \$2.5 million that should be credited to Federal programs, and submit the applicable financial reports to the Florida Department of Education to effect such transfers.

District Contact Person: Rhonda Odom, Chief Financial Officer

Federal Awards Finding No. 2**Federal Agencies: United States Department of Education****Pass-Through Entity: Florida Department of Education****Programs: Improving Teacher Quality State Grants (CFDA No. 84.367)****Finding Type: Noncompliance****Questioned Costs: \$18,108**

Period of Availability; Activities Allowed or Unallowed. Title 34, Section 80.23, Code of Federal Regulations (CFR), provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. The District received an Improving Teacher Quality (ITQ) program award, totaling approximately \$930,000, which had a grant period from July 1, 2008, to June 30, 2009.

The District initially attempted to charge an expenditure of \$18,108, dated August 2006, for testing materials to the 2005-06 fiscal year Reading First program; however, because the expenditure was not within the program's period of availability, the Florida Department of Education (FDOE) denied the expenditure to the program. In September 2008, while comparing FDOE records to the District's records, District personnel realized that this expenditure was an ineligible charge to the program. To enable FDOE and District records to reconcile, the District reclassified the expenditure to the 2008-09 fiscal year ITQ program since District personnel believed the initial expenditure would have been allowable had it occurred during ITQ program's budget period. However, since the services were not initially incurred and obligated within the period of availability for the ITQ program, and there was no evidence FDOE had provided written approval for the expenditure as a pre-award cost, the expenditure represents a questioned cost subject to disallowance by the grantor.

Recommendation: The District should document to the grantor (Florida Department of Education) the allowability of the \$18,108 in questioned costs or restore these moneys to the ITQ program.

District Contact Person: Rhonda Odom, Chief Financial Officer

Federal Awards Finding No. 3**Federal Agencies: United States Department of Education****Pass-Through Entity: Florida Department of Education****Programs: Improving Teacher Quality State Grants (CFDA No. 84.367)****Finding Type: Noncompliance****Questioned Costs: Not applicable**

Procurement - Contract Provisions. Title 34, Section 80.36(i), Code of Federal Regulations, requires District contracts involving Federal funds to contain certain provisions, including the following:

- For contracts in excess of \$10,000, a provision for termination for cause and convenience by the grantee or subgrantee, including the manner by which it will be effected and the basis of settlement.
- Access to records of the contractor that are directly pertinent to the contract.
- Retention of all required records for three years after the grantee or subgrantee makes the final payment and all other pending matters are closed.

The District did not always include the above provisions in its vendor contracts paid with ITQ program funds. For example, the District contracted with a corporation for the purchase of materials and supplies, and the District charged costs totaling \$91,330 to the ITQ program. Also, the District paid approximately \$56,000 from the ITQ program pursuant to a contract for purchased services with another corporation. However, neither of these contracts

contained the Federally-required provisions mentioned above. Failure to include the required contract provisions could limit the District's actions if disputes arise with the contractor, and could result in disallowance of grant expenditures by the grantor.

Recommendation: **The District should establish procedures to ensure that contracts involving Federal funds contain the required provisions.**

District Contact Person: Rhonda Odom, Chief Financial Officer

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-169.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

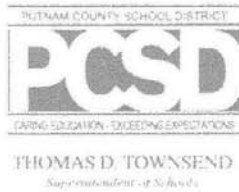
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*PUTNAM 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
2009-169		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



PUTNAM COUNTY SCHOOL DISTRICT
200 SOUTH SEVENTH STREET • PALATKA, FLORIDA 32177
In God We Trust

(386) 329-0513

March 2, 2010

The Honorable David W. Martin, C.P.A.
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Attached is our response to the preliminary and tentative audit findings and recommendations of The Putnam County District School Board for the year ending June 30, 2009.

I and my staff appreciate your efforts to assist us in improving our operation and conforming to Florida Statutes.

Should you have any questions regarding the enclosed responses please contact Rhonda Odom, Chief Financial Officer, at (386) 329-0513.

Sincerely,

Thomas D. Townsend
Superintendent

TDT:alw

Attachments

xc: file

John D. Milton
District I

Terry Wright
District II

BOARD MEMBERS
Lisa Parsons
District III

C.L. Overurf, Jr.
District IV

Joann Barber
District V

Education • There's Nothing Like It!

AN EQUITY ORIENTED DISTRICT

Finding No. 1: Adult Education Courses

With the implementation of Skyward, our new software system, it should be possible to post actual student hours. Each teacher is now required to keep a daily attendance record for students with copies being supplied to the Adult Education office on a monthly basis.

Finding No. 2: Information Technology – Access Controls

Controls have been put into place to ensure that access privileges for terminated employees are promptly removed.

Finding No. 3: Information Technology – User Authentication and Protection of Social Security Numbers

With the implementation of Skyward, we have moved to a user name and ID field that is not tied to social security numbers. This measure will ensure that user authentication and confidentiality of social security numbers will be enhanced.

Finding No. 4: Information Technology – Written Policies and Procedures

The District will continue to work on establishing written policies and procedures, acknowledging the time constraints that existing personnel have to take on these additional duties.

Federal Awards Finding No. 1

The net assets of the group insurance fund were transferred to the general fund on three specific occasions. First, the group insurance committee, under the leadership of the union president, voted to lend money to the operating fund to provide step raises to bargaining unit personnel and to prevent further layoffs. There is a written agreement to “pay” these funds back when additional funding becomes available. Therefore, these monies were a loan and are due back to the group insurance fund. Second, the District used some of the funds to set up the Impact Fee Special Project, as the District needed funds to set up the account, and these were district dollars available at our disposal. Third, District Management decided to move the balance of the fund to the operating fund, but to set it up as a Designation for Group Insurance. As such, it is still available for group insurance purposes for all employees (federally and non-federally funded).

The dollars that were charged to federal programs for the employees’ health insurance were used to provide health insurance for those employees. If any of those employees failed to make use of the funds, they were used to provide hospital indemnity or accidental insurance for those employees. The amounts of the transfers less the hospital indemnity or accidental insurance cost were used to subsidize health insurance costs for other federally funded employees. Due to the number of years covered and the supplemental benefit payments provided by the District, we will contact FDOE to seek their guidance regarding the possible need, if any, for any transfers or reserve amounts set up for the Special Revenue, Food Service, or Federal Programs tracked through our Enterprise Funds.

Federal Awards Finding No. 2

These dollars have been restored to the ITQ program by the General Fund.

Federal Awards Finding No. 3

The District has provided all contractual proviso language and it has been implemented for inclusion on all future purchase orders.