

GADSDEN 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 SUPERINTENDENT

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

	<u>District No.</u>
Eric Hinson	1
Judge B. Helms, Jr., Vice Chair to 11-17-08, Chair from 11-18-08	2
Isaac Simmons, Jr., Vice Chair from 11-18-08	3
Charlie D. Frost	4
Roger P. Milton, Chair to 11-17-08	5

Reginald C. James, Superintendent

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 Kathy Stich, CPA, and the audit was supervised by Cheryl Pueschel, CPA. For the information technology portion of this audit, the audit team leader was Deidre N. Melton, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**GADSDEN COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards, with the exception of the school internal accounts, which comprise a significant portion of the aggregate remaining fund information.

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, one of which we consider to be a material weakness, as summarized below.

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.

MATERIAL WEAKNESS

Finding No. 1: The District needed to enhance its financial reporting procedures and controls over school internal funds.

SIGNIFICANT DEFICIENCY

Finding No. 2: The District had not established adequate capital asset subsidiary records.

ADDITIONAL MATTERS

Finding No. 3: The District's General Fund unreserved fund balance could be significantly reduced if questioned Federal program costs are required to be restored to the Federal programs by the grantors.

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

Finding No. 5: Procedures for teachers assigned to out-of-field teaching duties were not effective to ensure that all out-of-field assignments were timely presented to the Board for approval.

Finding No. 6: Improvements are needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 7: The District needed to develop formal written procedures governing the use of purchasing cards, and needed to enhance its controls over purchasing card payments.

Finding No. 8: The District had not fully implemented a comprehensive information technology (IT) security awareness training program.

Finding No. 9: The District had not fully developed a formal IT disaster recovery plan that included provisions for the assignment of staff responsibilities and an alternate processing site in the event of a disaster.

Finding No. 10: The District lacked written policies and procedures for certain IT functions.

Finding No. 11: The District lacked written policies and procedures for the removal of IT access privileges of certain former or reassigned employees, consultants, and vendors.

Finding No. 12: Certain IT security controls in the areas of logging, monitoring, and review of system activity; management of access privileges; and user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Special Education Cluster, Improving Teacher Quality, and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the

requirements that were applicable to the major Federal programs tested, with the exception of the Title I program. We noted compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: The District did not always properly allocate Title I schoolwide program funds to schools identified as eligible and selected to participate.

Federal Awards Finding No. 2: The District did not document the allowability of costs totaling \$37,170 for a electronic parent notification system charged to the Title I and Special Education programs and costs totaling \$22,323.90 for antiviral software and servers charged to the Title I program.

Federal Awards Finding No. 3: Four teachers assigned to Title I schoolwide project schools did not meet the requirements to be highly qualified, contrary to Federal regulations.

Federal Awards Finding No. 4: Contrary to the intent and budget of the Improving Teacher Quality program, the District paid \$45,026.55 from the program for a health services coordinator.

Federal Awards Finding No. 5: District records did not evidence the allowability of Title I program costs totaling \$52,388.05 for two computer technicians.

Federal Awards Finding No. 6: Controls over capital assets used in Federal programs could be enhanced.

Other Matter: The Florida Department of Education (FDOE) performed an onsite monitoring review of the District in December 2009. The preliminary report of this review cited the District for extensive noncompliance with Federal regulations and indicated that FDOE will be placing more restrictive conditions on one or more of the District's Federal awards.

Audit Objectives and Scope

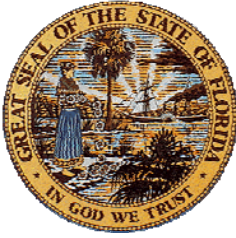
Our audit objectives were to determine whether the Gadsden County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2009-188.

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gadsden 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 76 percent of the assets and 98 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the reports of the other auditors.

Except as discussed in the following paragraph, 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

Audits of the school and activity funds, commonly called the school internal funds, are performed by other auditors pursuant to State Board of Education Rule 6A-1.087, Florida Administrative Code. The other auditors noted certain control deficiencies at three of the schools and issued a qualified opinion on the school internal funds' financial statements for those schools. While there were no reported balances at one school, the reported assets and liabilities at the other two schools represent 7 percent and 9 percent of the assets and liabilities, respectively, of the aggregate remaining fund information.

In our opinion, based on our audit and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had school internal funds' internal controls been sufficient to allow the other auditors to issue an unqualified opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information for the Gadsden County District School Board as of June 30, 2009, and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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 and each major fund for the Gadsden County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Gadsden 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 36 through 39) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

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

- The District's total net assets increased by \$3,184,077.91, during the year. This change was due, in part, to a new energy savings construction project.
- Total ending unrestricted net assets was a deficit of \$1,560,375.61, at June 30, 2009, compared to a deficit of \$1,454,237.33 at June 30, 2008.
- The District had total expenses for the year of \$60,066,377.78, compared to total revenues of \$63,250,455.69.
- The General Fund (the primary operating fund of the District) revenues and other financing sources exceeded expenditures by \$260,934.54, during the 2008-09 fiscal year. This may be compared to last year's results in which General Fund revenues exceeded expenditures and other net financing uses by \$378,132.60.

OVERVIEW OF FINANCIAL STATEMENTS

The primary focus of local government's financial statements is on the School District as a whole and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or school district to school district), and enhance the School District's accountability. The basic financial statements consist of three components:

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

In addition, this report presents certain required supplementary information such as management's discussion and analysis and a budgetary comparison schedule.

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. These statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net

assets, the results of operations, during the fiscal year. 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 governmental activities. These statements represent most of the District's services including its educational programs: basic, 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.

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

Fund Financial Statements

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

- **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. Consequently, 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 District reports the General Fund, Special Revenue – Food Service Fund, Special Revenue – ARRA Economic Stimulus Fund, Special Revenue – Other Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund as major funds. The other funds are combined into a single, aggregated presentation.
- **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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section is used to present condensed financial information from the government-wide statements that compares the current to the prior year.

The following schedule summarizes the statement of net assets for the fiscal years ended June 30, 2009, compared to net assets as of June 30, 2008:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 5,704,911.85	\$ 8,668,861.50
Capital Assets, Net	76,771,476.17	74,879,454.77
Total Assets	82,476,388.02	83,548,316.27
Other Liabilities	328,528.06	5,220,854.28
Long-Term Liabilities	5,596,867.32	4,960,547.26
Total Liabilities	5,925,395.38	10,181,401.54
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	74,996,476.17	72,954,454.77
Restricted	3,114,892.08	1,866,697.29
Unrestricted Deficit	(1,560,375.61)	(1,454,237.33)
Total Net Assets	\$ 76,550,992.64	\$ 73,366,914.73

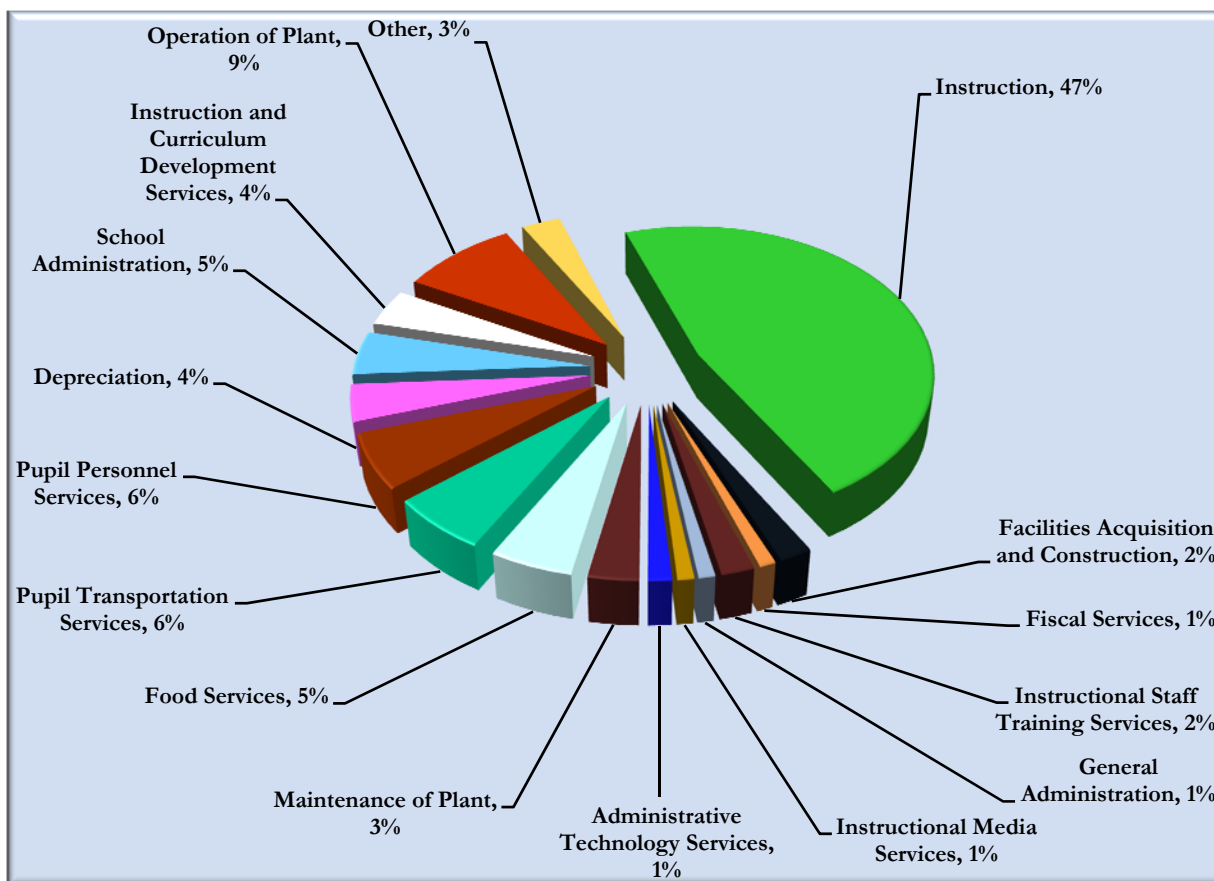
The following schedule summarizes changes in the District's net assets for the fiscal years ended June 30, 2009, and June 30, 2008:

Operating Results for the Year		
	Governmental Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 511,676.06	\$ 598,689.68
Operating Grants and Contributions	5,175,263.42	5,247,946.77
Capital Grants and Contributions	5,045,293.45	2,455,174.92
General Revenues:		
Property Taxes, Levied for Operational Purposes	8,516,786.21	7,864,641.90
Property Taxes, Levied for Capital Projects	2,552,152.70	2,760,882.64
Grants and Contributions Not Restricted to Specific Programs	40,787,475.30	45,220,955.95
Unrestricted Investment Earnings	19,414.26	232,165.98
Miscellaneous	642,394.29	808,236.66
Total Revenues	63,250,455.69	65,188,694.50
Functions/Program Expenses:		
Instruction	28,177,836.67	30,058,903.73
Pupil Personnel Services	3,408,456.36	3,649,281.93
Instructional Media Services	752,573.98	934,101.59
Instruction and Curriculum Development Services	2,491,951.34	2,623,597.95
Instructional Staff Training Services	1,437,203.96	1,732,479.87
Instruction Related Technology	77,300.38	69,639.17
Board of Education	636,435.42	386,031.60
General Administration	917,961.03	1,090,740.81
School Administration	2,902,536.43	3,181,872.66
Facilities Acquisition and Construction	1,195,346.17	533,286.38
Fiscal Services	488,690.66	486,138.54
Food Services	3,317,773.25	3,485,442.55
Central Services	409,333.44	404,645.95
Pupil Transportation Services	3,696,528.05	3,823,048.83
Operation of Plant	5,368,804.89	5,458,972.50
Maintenance of Plant	1,548,645.80	1,594,947.85
Administrative Technology Services	526,525.99	509,717.38
Community Services	334,208.40	346,394.71
Interest on Long-Term Debt	95,904.15	102,458.22
Unallocated Depreciation Expense	2,282,361.41	2,128,071.65
Loss on Disposal of Capital Assets		42,392.94
Total Functions/Program Expenses	60,066,377.78	62,642,166.81
Increase in Net Assets	\$ 3,184,077.91	\$ 2,546,527.69

The largest revenue source is the State of Florida (62 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Revenues for capital grants and contributions increased \$2,590,118.53, primarily due to an increase in recognition of Public Education Capital Outlay appropriations for the new energy savings construction project. The decrease in revenues for grants and contributions not restricted to specific programs can be primarily attributed to a \$2,998,271 decrease in FEFP funds because of reductions in per student State allocations and student enrollment.

The following chart depicts the distribution of expenses of the District as a whole for the 2008-09 fiscal year.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the balances and transactions of the individual funds. The analysis addresses the reasons for significant changes in fund balances and the affect of the availability of fund resources for future use.

Major Governmental Funds

General Fund. The District's General Fund ending fund balance was \$2,310,254.24, which represents an increase of \$260,934.54, from the previous year. This increase was due, in part, to a reduction in personnel and energy costs. Of the total fund balance \$1,842,338.64, is unreserved.

Special Revenue – Food Service Fund. The District accounts for the operations of the food service program in the Special Revenue – Food Service Fund. As of June 30, 2009, the ending fund balance was \$169,954.33, which was fully accumulated during the 2008-09 fiscal year. This increase in fund balance was mainly because of increased participation in the free and reduced price school lunch and breakfast programs. The majority of the fund balance, or \$126,731.16, was reserved for inventories.

Special Revenue – ARRA Economic Stimulus Fund. The District accounts for American Recovery and Reinvestment Act (ARRA) Economic Stimulus grant program resources in the Special Revenue – ARRA Economic Stimulus Fund and, for the 2008-09 fiscal year, this fund had revenues and expenditures totaling \$131,032.11 each. The fund is considered "major" due to directives from the Florida Department of Education.

Special Revenue – Other Fund. The District accounts for certain Federal grant program resources in the Special Revenue – Other Fund and, for the 2008-09 fiscal year, had revenues and expenditures totaling \$7,427,531.39 and \$7,471,380.09, respectively. As of June 30, 2009, the District reported an ending fund balance of \$4,429.02 for this fund. The District received fewer Federal grant awards in the 2008-09 fiscal year, which caused the decrease in revenues and expenditures.

Capital Projects – Local Capital Improvement Fund. The District receives property tax monies from annual capital outlay levies. The fund is used to accumulate resources for various equipment purchases and facilities acquisition and construction. As of June 30, 2009, the Capital Projects – Local Improvement Fund had a fund balance of \$1,565,077.26, which represents an increase of \$359,579.21, from the previous year. This increase is due, in part, to preparations for remodeling and repair projects in subsequent years and for continued energy saving programs and buses.

Capital Projects – Other Fund. The fund is used to accumulate resources from various State revenues, including Classroom for Kids, for equipment and facilities acquisition and construction. As of June 30, 2009, the Capital Projects – Other fund had a fund balance of \$1,249,598.64, which represents an increase of \$1,167,610.89, from the previous year, mainly due to unspent appropriations to use for an energy saving construction project. It should be noted that \$520,963.20 of the total fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant variations between the original and final budget amounts or between the final budget and actual amounts for the General Fund.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$76,771,476.17 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software. Construction in progress at June 30, 2009, includes an energy savings construction project. Additional information on the District's capital assets can be found in Notes 4 and 13 to the financial statements.

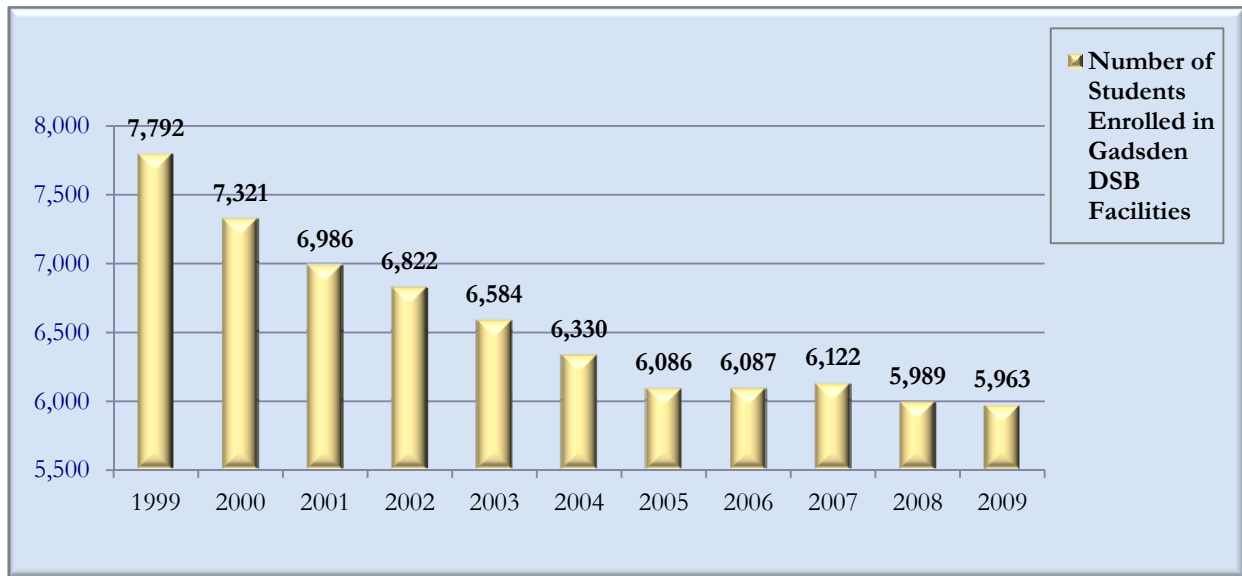
Long-Term Debt

During the 2008-09 fiscal year, bond principal payments totaled \$150,000, and at June 30, 2009, the District has bonds outstanding totaling \$1,775,000. 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

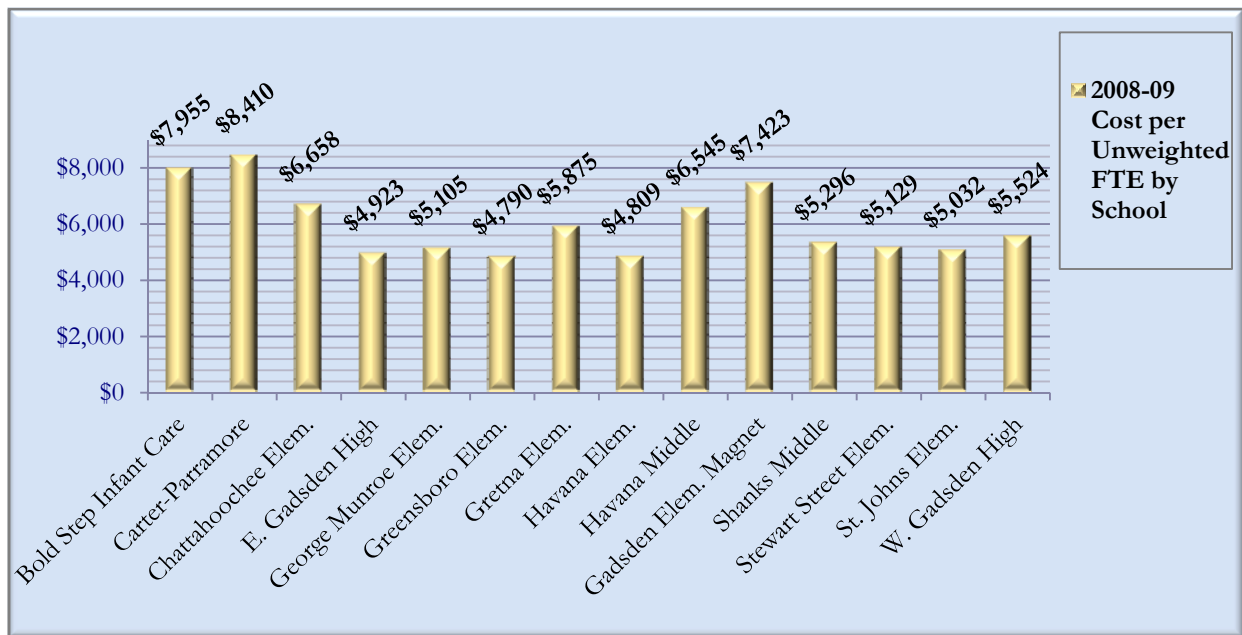
Student Enrollment and Funding

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. As shown in the following chart, after experiencing a significant decline in FTE for six straight fiscal years, the FTE increased slightly in the 2005-06 and 2006-07 fiscal years and declined again in the 2007-08 and 2008-09 fiscal years.



Costs Per Unweighted FTE

The following chart represents the per student amount of General Fund expenditures charged directly to each school for the 2008-09 fiscal year. It does not include any support services that are performed for a school but are charged to a Districtwide cost center.



REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the Gadsden County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business and Finance, Gadsden County District School Board, 35 Martin Luther King, Jr. Boulevard, Quincy, FL 32351.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 4,348,742.28
Investments	113,502.58
Accounts Receivable	14,890.96
Taxes Receivable	3,982.50
Due from Other Agencies	924,135.75
Inventories	299,657.78
Capital Assets:	
Nondepreciable Capital Assets	5,278,843.34
Depreciable Capital Assets, Net	71,492,632.83
TOTAL ASSETS	\$ 82,476,388.02
LIABILITIES	
Accounts Payable	\$ 320,602.32
Due to Other Agencies	7,925.74
Long-Term Liabilities:	
Portion Due Within One Year	760,000.00
Portion Due After One Year	4,836,867.32
Total Liabilities	5,925,395.38
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	74,996,476.17
Restricted for:	
State Categorical Programs	223,145.88
Debt Service	50,729.11
Capital Projects	2,841,017.09
Unrestricted Deficit	(1,560,375.61)
Total Net Assets	76,550,992.64
TOTAL LIABILITIES AND NET ASSETS	\$ 82,476,388.02

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 28,177,836.67	\$ 93,560.16	\$	\$	\$ (28,084,276.51)
Pupil Personnel Services	3,408,456.36				(3,408,456.36)
Instructional Media Services	752,573.98				(752,573.98)
Instruction and Curriculum Development Services	2,491,951.34				(2,491,951.34)
Instructional Staff Training Services	1,437,203.96				(1,437,203.96)
Instruction Related Technology	77,300.38				(77,300.38)
Board of Education	636,435.42				(636,435.42)
General Administration	917,961.03				(917,961.03)
School Administration	2,902,536.43				(2,902,536.43)
Facilities Acquisition and Construction	1,195,346.17			4,272,943.94	3,077,597.77
Fiscal Services	488,690.66				(488,690.66)
Food Services	3,317,773.25	222,729.40	3,227,718.42		132,674.57
Central Services	409,333.44				(409,333.44)
Pupil Transportation Services	3,696,528.05	195,386.50	1,947,545.00		(1,553,596.55)
Operation of Plant	5,368,804.89				(5,368,804.89)
Maintenance of Plant	1,548,645.80			532,035.00	(1,016,610.80)
Administrative Technology Services	526,525.99				(526,525.99)
Community Services	334,208.40				(334,208.40)
Interest on Long-Term Debt	95,904.15			240,314.51	144,410.36
Unallocated Depreciation Expense	2,282,361.41				(2,282,361.41)
Total Governmental Activities	\$ 60,066,377.78	\$ 511,676.06	\$ 5,175,263.42	\$ 5,045,293.45	(49,334,144.85)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					8,516,786.21
Property Taxes, Levied for Capital Projects					2,552,152.70
Grants and Contributions Not Restricted to Specific Programs					40,787,475.30
Unrestricted Investment Earnings					19,414.26
Miscellaneous					642,394.29
Total General Revenues					52,518,222.76
Change in Net Assets					3,184,077.91
Net Assets - Beginning					73,366,914.73
Net Assets - Ending					\$ 76,550,992.64

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

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 1,499,937.36	\$	\$	\$
Investments	65,011.30			
Accounts Receivable	14,826.07	15.39		49.50
Taxes Receivable	3,982.50			
Due from Other Funds	644,439.21	3,000.00		
Due from Other Agencies	59,065.29	144,953.19	123,805.67	596,311.60
Inventories	172,926.62	126,731.16		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 2,460,188.35</u>	<u>\$ 274,699.74</u>	<u>\$ 123,805.67</u>	<u>\$ 596,361.10</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 147,558.37	\$ 4,893.33	\$	\$ 168,150.62
Due to Other Funds		99,852.08	123,805.67	423,781.46
Due to Other Agencies	2,375.74			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>149,934.11</u>	<u>104,745.41</u>	<u>123,805.67</u>	<u>591,932.08</u>
Fund Balances:				
Reserved for State Categorical Programs	223,145.88			
Reserved for Encumbrances	71,843.10			
Reserved for Inventories	172,926.62	126,731.16		
Reserved for Debt Service				
Unreserved, Reported in:				
General Fund	1,842,338.64			
Special Revenue Funds		43,223.17		4,429.02
Capital Projects Funds				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>2,310,254.24</u>	<u>169,954.33</u>	<u> </u>	<u>4,429.02</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,460,188.35</u>	<u>\$ 274,699.74</u>	<u>\$ 123,805.67</u>	<u>\$ 596,361.10</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,565,077.26	\$ 1,249,598.64	\$ 34,129.02 48,491.28	\$ 4,348,742.28 113,502.58 14,890.96 3,982.50 647,439.21 924,135.75 299,657.78
<u>\$ 1,565,077.26</u>	<u>\$ 1,249,598.64</u>	<u>\$ 82,620.30</u>	<u>\$ 6,352,351.06</u>
\$	\$	\$	\$ 320,602.32 647,439.21 7,925.74
		5,550.00	
		5,550.00	975,967.27
	520,963.20		223,145.88 592,806.30 299,657.78 50,729.11
		50,729.11	
1,565,077.26	728,635.44	26,341.19	1,842,338.64 47,652.19 2,320,053.89
<u>1,565,077.26</u>	<u>1,249,598.64</u>	<u>77,070.30</u>	<u>5,376,383.79</u>
<u>\$ 1,565,077.26</u>	<u>\$ 1,249,598.64</u>	<u>\$ 82,620.30</u>	<u>\$ 6,352,351.06</u>

**GADSDEN 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 \$ 5,376,383.79

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. 76,771,476.17

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	\$ 1,775,000.00	
Compensated Absences Payable	2,760,590.32	
Postemployment Healthcare Benefits Payable	<u>1,061,277.00</u>	<u>(5,596,867.32)</u>

Total Net Assets - Governmental Activities \$ 76,550,992.64

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

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**GADSDEN 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 - Food Service Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 145,067.52	\$	\$	\$ 2,243,399.76
Federal Through State and Local	879,122.14	3,136,014.37	131,032.11	5,184,062.14
State	34,684,302.14	91,704.05		
Local:				
Property Taxes	8,516,786.21			
Charges for Services	288,946.66	222,729.40		
Miscellaneous	619,539.88	2,894.60		69.49
Total Revenues	<u>45,133,764.55</u>	<u>3,453,342.42</u>	<u>131,032.11</u>	<u>7,427,531.39</u>
Expenditures				
Current - Education:				
Instruction	23,555,482.42		107,417.54	3,893,497.85
Pupil Personnel Services	2,323,356.23		6,342.89	1,042,031.29
Instructional Media Services	640,020.95			97,772.95
Instruction and Curriculum Development Services	1,713,682.84			828,623.46
Instructional Staff Training Services	396,089.93			1,034,259.78
Instruction Related Technology	74,925.33			
Board of Education	636,435.42			
General Administration	737,207.88			163,121.88
School Administration	2,878,307.54		3,314.60	27,796.82
Facilities Acquisition and Construction	76,349.11			
Fiscal Services	476,515.74			
Food Services	34,173.73	3,283,388.09		3,793.07
Central Services	391,102.33			9,287.45
Pupil Transportation Services	3,332,178.37		13,957.08	166,384.22
Operation of Plant	5,311,061.34			22,757.84
Maintenance of Plant	1,533,052.83			
Administrative Technology Services	467,396.08			51,135.24
Community Services	272,893.14			50,999.19
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	60,939.29			79,919.05
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>44,911,170.50</u>	<u>3,283,388.09</u>	<u>131,032.11</u>	<u>7,471,380.09</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>222,594.05</u>	<u>169,954.33</u>	<u></u>	<u>(43,848.70)</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets	11,800.00			
Insurance Loss Recoveries	26,540.49			
Total Other Financing Sources	<u>38,340.49</u>			
Net Change in Fund Balances	260,934.54	169,954.33		(43,848.70)
Fund Balances, Beginning	2,049,319.70			48,277.72
Fund Balances, Ending	<u>\$ 2,310,254.24</u>	<u>\$ 169,954.33</u>	<u>\$ 0.00</u>	<u>\$ 4,429.02</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
			2,388,467.28
			9,330,230.76
	3,998,208.00	515,050.45	39,289,264.64
2,552,152.70			11,068,938.91
			511,676.06
1,033.58			623,537.55
2,553,186.28	3,998,208.00	515,050.45	63,212,115.20
			27,556,397.81
			3,371,730.41
			737,793.90
			2,542,306.30
			1,430,349.71
			74,925.33
			636,435.42
			900,329.76
			2,909,418.96
			76,349.11
			476,515.74
			3,321,354.89
			400,389.78
			3,512,519.67
			5,333,819.18
			1,533,052.83
			518,531.32
			323,892.33
2,193,607.07	2,830,597.11	255,000.00	5,279,204.18
			140,858.34
		150,000.00	150,000.00
		95,904.15	95,904.15
2,193,607.07	2,830,597.11	500,904.15	61,322,079.12
359,579.21	1,167,610.89	14,146.30	1,890,036.08
			11,800.00
			26,540.49
			38,340.49
359,579.21	1,167,610.89	14,146.30	1,928,376.57
1,205,498.05	81,987.75	62,924.00	3,448,007.22
\$ 1,565,077.26	\$ 1,249,598.64	\$ 77,070.30	\$ 5,376,383.79

**GADSDEN COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Net Change in Fund Balances - Governmental Funds	\$ 1,928,376.57
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period.	1,892,021.40
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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 repayments in the current period.	150,000.00
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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 used in excess of the amount earned in the current period.	274,956.94
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Postemployment healthcare 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 postemployment healthcare benefits liability for the current fiscal year.	(1,061,277.00)
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Change in Net Assets - Governmental Activities	\$ 3,184,077.91
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The accompanying notes to financial statements are an integral part of this statement.

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	<u>\$ 265,433</u>
LIABILITIES	
Internal Accounts Payable	<u>\$ 265,433</u>

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

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

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District School Board is financially accountable and other organizations for which the nature and significance of their relationship with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the District.

➤ **Basis of Presentation**

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

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

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

The effects of interfund activity have been eliminated from the government-wide financial statements.

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Food Service Fund – to account for the District’s food service program.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- 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 and renovation and remodeling projects.
- Capital Projects – Other Fund – to account for financial resources generated by various State and local sources including the Classrooms for Kids and Class Size Reduction Construction programs, to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, postemployment healthcare benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

➤ **Deposits and Investments**

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

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, and 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. 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. The investments are reported at fair value, which is amortized cost.

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

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis for maintenance department inventories; weighted-average for warehouse inventories; moving weighted-average for transportation; and last invoice price, which approximates the first-in, first-out basis, for purchased foods and nonfood inventories. United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750 for assets acquired on or after the 2006-07 fiscal year. The capitalization threshold

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

prior to that period was \$500, and those assets remain in the capital asset balances. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Building and fixed equipment are depreciated using the straight-line method, with all other assets being depreciated using the composite method of depreciation, 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	5 - 7 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of nine months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent

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

fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 9, 2008. Tax bills are mailed in October and taxes are payable between November 1, of the year assessed and March 31, of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP); any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices, and does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash equivalents, with a fair value of \$3,337,839.51 at June 30, 2009, are in SBA LGIP with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The District's investment in LGIP is rated AAAM by Standard & Poor's.

Investments with a fair value of \$65,011.30 at June 30, 2009, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District's investment in Fund B is unrated.

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

In addition, the District reports investments totaling \$48,491.28 at June 30, 2009, in the SBA Debt Service accounts to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District relies on policies developed by SBA for managing credit risk for this account.

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	\$ 1,801,806.54	\$	\$	\$ 1,801,806.54
Construction in Progress		3,477,036.80		3,477,036.80
Total Capital Assets Not Being Depreciated	1,801,806.54	3,477,036.80		5,278,843.34
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,727,839.79	95,512.21		3,823,352.00
Buildings and Fixed Equipment	90,074,451.64			90,074,451.64
Furniture, Fixtures, and Equipment	7,261,973.05	200,139.87		7,462,112.92
Motor Vehicles	6,273,481.98	412,273.85	239,988.00	6,445,767.83
Audio Visual Materials and Computer Software	3,527,823.23	118,604.53		3,646,427.76
Total Capital Assets Being Depreciated	110,865,569.69	826,530.46	239,988.00	111,452,112.15
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,494,383.55	65,743.22		2,560,126.77
Buildings and Fixed Equipment	21,894,633.86	1,779,753.80		23,674,387.66
Furniture, Fixtures, and Equipment	5,071,438.69	305,875.84		5,377,314.53
Motor Vehicles	5,323,596.34	129,184.45	239,988.00	5,212,792.79
Audio Visual Materials and Computer Software	3,003,869.02	130,988.55		3,134,857.57
Total Accumulated Depreciation	37,787,921.46	2,411,545.86	239,988.00	39,959,479.32
Total Capital Assets Being Depreciated, Net	73,077,648.23	(1,585,015.40)		71,492,632.83
Governmental Activities Capital Assets, Net	\$ 74,879,454.77	\$ 1,892,021.40	\$ 0.00	\$ 76,771,476.17

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 129,184.45
Unallocated	<u>2,282,361.41</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 2,411,545.86</u></u>

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	\$ 135,000.00	4.375 - 4.750	2019
Series 2005B, Refunding	<u>1,640,000.00</u>	5.0	2018
Total Bonds Payable	<u><u>\$ 1,775,000.00</u></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. The approximate amount of the pledge is \$1,775,000. During the 2008-09 fiscal year, \$295,444.75 of motor vehicle license tax revenue was recognized and \$245,904.15, was paid for debt service.

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 248,237.50	\$ 160,000.00	\$ 88,237.50
2011	250,331.25	170,000.00	80,331.25
2012	246,931.25	175,000.00	71,931.25
2013	248,256.25	185,000.00	63,256.25
2014	239,062.50	185,000.00	54,062.50
2015-2019	1,017,987.50	900,000.00	117,987.50
Total	<u>\$ 2,250,806.25</u>	<u>\$ 1,775,000.00</u>	<u>\$ 475,806.25</u>

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	\$ 1,925,000.00	\$	\$ 150,000.00	\$ 1,775,000.00	\$ 160,000.00
Compensated Absences Payable	3,035,547.26	66,046.69	341,003.63	2,760,590.32	600,000.00
Postemployment Healthcare Benefits Payable		1,887,208.00	825,931.00	1,061,277.00	
Total Governmental Activities	<u>\$ 4,960,547.26</u>	<u>\$ 1,953,254.69</u>	<u>\$ 1,316,934.63</u>	<u>\$ 5,596,867.32</u>	<u>\$ 760,000.00</u>

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

7. INTERFUND RECEIVABLES AND PAYABLES

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 644,439.21	\$
Special Revenue:		
Other		423,781.46
ARRA Economic Stimulus		123,805.67
Food Service	3,000.00	99,852.08
Total	<u>\$ 647,439.21</u>	<u>\$ 647,439.21</u>

**GADSDEN COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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An interfund balance between the Special Revenue – Food Service Fund and the Special Revenue – Other Fund represents unreimbursed food service expenditures. The remaining interfund balances arose because three funds used more than their share of the District's pooled cash accounts. The District has designated the General Fund to be the loaning fund.

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 and the Special Revenue – ARRA Economic Stimulus 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 and the Special Revenue – ARRA Economic Stimulus Fund total \$39,137.67 and \$209,346.00, respectively, at 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
Florida Education Finance Program	\$ 22,802,519.00
Categorical Educational Programs:	
Class Size Reduction	6,032,840.00
Transportation	1,947,545.00
Voluntary Prekindergarten	729,417.87
Instructional Materials	561,272.00
School Recognition	344,777.00
Florida Teachers Lead	83,276.00
Excellent Teaching	30,305.52
Gross Receipts Tax (Public Education Capital Outlay)	4,623,823.00
Workforce Development Program	702,892.00
Adults with Disabilities	443,967.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	295,444.75
Discretionary Lottery Funds	140,457.00
Charter School Capital Outlay	130,397.00
Miscellaneous	420,331.50
Total	<u><u>\$ 39,289,264.64</u></u>

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

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

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	5.098	\$ 7,743,346
Basic Discretionary Local Effort	0.498	756,411
Supplemental Discretionary Local Effort	0.250	379,725
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	2,658,072
Total	<u>7.596</u>	<u>\$ 11,537,554</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 at 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

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

electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 85 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$223,361.53.

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, 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 \$3,183,393.70, \$3,442,786.54, and \$3,091,941.45, 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.

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

12. POSTEMPLOYMENT HEALTHCARE BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$29,070,050 at the July 1, 2008, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment healthcare benefits liability at the date of transition.

Plan Description. The Postemployment Healthcare Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug 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. Pursuant to Section 112.0801, Florida Statutes, the District contributed towards the costs of health care benefits for former employees who retired prior to May 2, 2001. Effective October 1, 2002, the Board decreased its contribution from \$50 to \$30 per month per former retired employee. Premiums totaled \$82,855 for the 2008-09 fiscal year, and the District provided benefits to 160 retired former employees at June 30, 2009. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 296 retirees received postemployment healthcare benefits. The District provided required contributions of \$825,931 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling \$814,866, which represents 2.9 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 913,164
Amortization of Unfunded Actuarial Accrued Liability	925,309
Interest on Normal Cost and Amortization	48,735
Annual Required Contribution	1,887,208
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	
Annual OPEB Cost (Expense)	1,887,208
Contribution Toward the OPEB Cost	(825,931)
Increase in Net OPEB Obligation	1,061,277
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	<u>\$ 1,061,277</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, first year of implementation, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	\$		\$ 0
2008-09	1,887,208	43.76%	1,061,277

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$29,070,050, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$29,070,050, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$27,912,948, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 104.1 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

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

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.

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

The District's initial OPEB actuarial valuation as of October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.56 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 4 percent initially, rising to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

13. CONSTRUCTION CONTRACT COMMITMENT

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

Project	Contract Amount	Completed to Date	Balance Committed
Districtwide Energy Savings Contractor	<u>\$ 3,998,000.00</u>	<u>\$ 3,477,036.80</u>	<u>\$ 520,963.20</u>

14. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, general liability, building and contents, boiler and machinery, errors and omissions, and employee health and hospitalization, life, and dental coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

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

15. LITIGATION

The District is involved in several pending and threatened legal actions. The range of loss from all claims and actions, as estimated by District management, should not materially affect the financial condition of the District.

16. OTHER LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims could become a liability of the General Fund or other applicable funds. The questioned costs identified in the audits for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$713,073.78, \$414,640.74, and \$427,083.94, respectively for a total of \$1,554,798.46. On March 11, 2010, the District received final determination from the grantor for the questioned costs noted in the audits for the fiscal years ending June 30, 2007 and 2008, and the grantor requested restoration of questioned costs totaling \$245,183.14 and \$414,640.74, respectively. These questioned costs requested to be restored to the program have a material effect on the District's overall financial position. In addition, if the questioned costs noted in the audit for the fiscal year ending June 30, 2009, are disallowed by the applicable oversight agencies, the amounts will have a material effect on the District's overall financial position.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

GADSDEN 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	\$ 160,000.00	\$ 160,000.00	\$ 145,067.52	\$ (14,932.48)
Federal Through State and Local	150,000.00	752,931.03	879,122.14	126,191.11
State	35,622,920.00	35,091,581.01	34,684,302.14	(407,278.87)
Local:				
Property Taxes	8,403,783.00	8,403,783.00	8,516,786.21	113,003.21
Charges for Services	505,000.00	505,000.00	288,946.66	(216,053.34)
Miscellaneous	31,000.00	31,000.00	619,539.88	588,539.88
Total Revenues	44,872,703.00	44,944,295.04	45,133,764.55	189,469.51
Expenditures				
Current - Education:				
Instruction	24,824,972.93	24,613,569.98	23,555,482.42	1,058,087.56
Pupil Personnel Services	2,151,273.00	2,369,126.59	2,323,356.23	45,770.36
Instructional Media Services	1,321,915.46	679,485.50	640,020.95	39,464.55
Instruction and Curriculum Development Services	1,043,386.67	1,742,652.53	1,713,682.84	28,969.69
Instructional Staff Training Services	450,889.30	494,579.84	396,089.93	98,489.91
Instruction Related Technology	67,510.00	75,120.56	74,925.33	195.23
Board of Education	478,565.00	645,388.42	636,435.42	8,953.00
General Administration	763,150.00	739,684.42	737,207.88	2,476.54
School Administration	2,626,572.49	3,031,417.30	2,878,307.54	153,109.76
Facilities Acquisition and Construction	79,356.00	77,156.00	76,349.11	806.89
Fiscal Services	480,542.00	479,202.50	476,515.74	2,686.76
Food Services		34,173.73	34,173.73	
Central Services	383,340.96	410,973.13	391,102.33	19,870.80
Pupil Transportation Services	3,603,346.00	3,347,951.67	3,332,178.37	15,773.30
Operation of Plant	5,696,512.57	5,610,970.05	5,311,061.34	299,908.71
Maintenance of Plant	1,676,827.77	1,773,251.69	1,533,052.83	240,198.86
Administrative Technology Services	441,272.00	543,592.42	467,396.08	76,196.34
Community Services	50,000.00	295,717.56	272,893.14	22,824.42
Fixed Capital Outlay:				
Other Capital Outlay		60,939.29	60,939.29	
Total Expenditures	46,139,432.15	47,024,953.18	44,911,170.50	2,113,782.68
Excess (Deficiency) of Revenues Over Expenditures	(1,266,729.15)	(2,080,658.14)	222,594.05	2,303,252.19
Other Financing Sources				
Proceeds from Sale of Capital Assets			11,800.00	11,800.00
Insurance Loss Recoveries			26,540.49	26,540.49
Total Other Financing Sources			38,340.49	38,340.49
Net Change in Fund Balances	(1,266,729.15)	(2,080,658.14)	260,934.54	2,341,592.68
Fund Balances, Beginning	2,080,658.14	2,080,658.14	2,049,319.70	(31,338.44)
Fund Balances, Ending	\$ 813,928.99	\$ 0.00	\$ 2,310,254.24	\$ 2,310,254.24

Special Revenue - Food Service Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$	\$	\$	\$	\$	\$	\$	\$
2,784,247.00	2,784,247.00	3,136,014.37	351,767.37		873,752.00	131,032.11	(742,719.89)
73,750.00	73,750.00	91,704.05	17,954.05				
450,000.00	450,000.00	222,729.40	(227,270.60)				
		2,894.60	2,894.60				
<u>3,307,997.00</u>	<u>3,307,997.00</u>	<u>3,453,342.42</u>	<u>145,345.42</u>	<u> </u>	<u>873,752.00</u>	<u>131,032.11</u>	<u>(742,719.89)</u>
					494,536.43	107,417.54	387,118.89
					32,707.89	6,342.89	26,365.00
					75,000.00		75,000.00
					21,365.00		21,365.00
					3,314.60	3,314.60	
3,307,997.00	3,307,997.00	3,283,388.09	24,608.91				
					246,828.08	13,957.08	232,871.00
<u>3,307,997.00</u>	<u>3,307,997.00</u>	<u>3,283,388.09</u>	<u>24,608.91</u>	<u> </u>	<u>873,752.00</u>	<u>131,032.11</u>	<u>742,719.89</u>
		169,954.33	169,954.33				
		169,954.33	169,954.33				
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 169,954.33</u>	<u>\$ 169,954.33</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

	Special Revenue - Other Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 940,285.24	\$ 2,912,425.64	\$ 2,243,399.76	\$ (669,025.88)
Federal Through State and Local State	3,205,987.96	7,870,202.12	5,184,062.14	(2,686,139.98)
Local:				
Property Taxes				
Charges for Services				
Miscellaneous			69.49	69.49
Total Revenues	<u>4,146,273.20</u>	<u>10,782,627.76</u>	<u>7,427,531.39</u>	<u>(3,355,096.37)</u>
Expenditures				
Current - Education:				
Instruction	2,563,624.02	6,104,645.96	3,893,497.85	2,211,148.11
Pupil Personnel Services	310,094.31	1,149,684.02	1,042,031.29	107,652.73
Instructional Media Services	1,335.84	100,692.95	97,772.95	2,920.00
Instruction and Curriculum Development Services	591,094.36	1,247,684.45	828,623.46	419,060.99
Instructional Staff Training Services	404,254.17	1,112,915.92	1,034,259.78	78,656.14
Instruction Related Technology				
Board of Education				
General Administration	162,143.61	456,787.30	163,121.88	293,665.42
School Administration	619.45	32,003.87	27,796.82	4,207.05
Facilities Acquisition and Construction				
Fiscal Services				
Food Services		3,793.07	3,793.07	
Central Services	6,184.00	14,289.06	9,287.45	5,001.61
Pupil Transportation Services	117,000.68	316,210.16	166,384.22	149,825.94
Operation of Plant	17,330.99	44,573.57	22,757.84	21,815.73
Maintenance of Plant	2,800.00	2,800.00		2,800.00
Administrative Technology Services	15,814.51	110,902.98	51,135.24	59,767.74
Community Services		51,748.14	50,999.19	748.95
Fixed Capital Outlay:				
Other Capital Outlay		79,919.05	79,919.05	
Total Expenditures	<u>4,192,295.94</u>	<u>10,828,650.50</u>	<u>7,471,380.09</u>	<u>3,357,270.41</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(46,022.74)</u>	<u>(46,022.74)</u>	<u>(43,848.70)</u>	<u>2,174.04</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets				
Insurance Loss Recoveries				
Total Other Financing Sources				
Net Change in Fund Balances	<u>(46,022.74)</u>	<u>(46,022.74)</u>	<u>(43,848.70)</u>	<u>2,174.04</u>
Fund Balances, Beginning	<u>48,277.72</u>	<u>48,277.72</u>	<u>48,277.72</u>	
Fund Balances, Ending	<u>\$ 2,254.98</u>	<u>\$ 2,254.98</u>	<u>\$ 4,429.02</u>	<u>\$ 2,174.04</u>

**GADSDEN COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 29,070,050	\$ 29,070,050	0.0%	\$ 27,912,948	104.1%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 700,220.06
National School Lunch Program	10.555	300, 350	2,048,718.22
Summer Food Service Program for Children	10.559	323	191,259.27
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	193,289.32
Total United States Department of Agriculture			3,133,486.87
United States Department of Education:			
Direct:			
Fund for the Improvement of Education	84.215	N/A	346,222.88
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,516,916.06
Special Education - Preschool Grants	84.173	266, 267	99,782.69
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	131,032.11
University of South Florida:			
Special Education - Grants to States	84.027	None	3,000.00
Total Special Education Cluster			1,750,730.86
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	1,932,846.30
Career and Technical Education - Basic Grants to States	84.048	151	203,154.15
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	20,930.34
Education for Homeless Children and Youth	84.196	127	84,086.09
Twenty-first Century Community Learning Centers	84.287	244	304,181.10
State Grants for Innovative Programs	84.298	113	1,426.83
Education Technology State Grants	84.318	121	21,784.69
Reading First State Grants	84.357	211	180,285.00
English Language Acquisition Grants	84.365	102	81,389.28
Improving Teacher Quality State Grants	84.367	224	651,892.97
School Improvement Grants	84.377	126	128,051.28
Washington County District School Board:			
Migrant Education - State Grant Program	84.011	None	15,902.00
Reading First State Grants	84.357	None	14,887.85
Florida Agricultural and Mechanical University:			
TRIO-Upward Bound	84.047	None	2,081.50
Florida State University:			
TRIO-Upward Bound	84.047	None	28,350.50
Nova Southeastern University:			
Voluntary Public School Choice	84.361	None	102,216.55
Tallahassee Community College:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	None	160,186.16
Total Indirect			5,684,383.45
Total United States Department of Education			6,030,606.33
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	1,897,176.88
Corporation for National and Community Service:			
Indirect:			
Tallahassee Community College:			
AmeriCorps	94.006	None	338,436.17
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	145,062.53
Total Expenditures of Federal Awards			\$ 11,544,768.78

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

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

(3) Head Start. Expenditures include \$619,736.26 for grant number/program year 04CH0241/23 and \$1,277,440.62 for grant number/program year 04CH0241/24.



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gadsden 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. Our opinion on the financial statements was qualified due to control deficiencies in the school internal funds noted by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Gadsden County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

We consider Financial Statement Finding Nos. 1 and 2, which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Financial Statement Finding No. 1 to be a material weakness.

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 25, 2010



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

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

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

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs

for the year ended June 30, 2009. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 6.

Internal Control Over Compliance

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

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

A control *deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 through 6 to be significant deficiencies.

A material *weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. Of the significant deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Federal Awards Finding No. 1 to be a material weakness.

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

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

Respectfully submitted,



David W. Martin, CPA
March 25, 2010

**GADSDEN 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:	Except for the effects of adjustments to the school internal funds, there were no modifications to the opinions on the financial statements.
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs, except for the Title I Grants to Local Educational Agencies (CFDA No. 84.010), which was qualified.
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); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391); Improving Teacher Quality State Grants (CFDA No. 84.367); and Head Start (CFDA No. 93.600)
Dollar threshold used to distinguish between Type A and Type B programs:	\$346,343
Auditee qualified as low-risk auditee?	No

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

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP). Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a governmental fund as major when the fund's liabilities represent at least 10 percent of the total governmental funds' liabilities. Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed several reporting errors resulting from weaknesses in control procedures, examples of which are as follows:

- The District received cash advance funding for various Federally-funded programs through FDOE, and FDOE required the District to reconcile the Federal cash balance shown on the FDOE Distributive Aid and Cash Advance Status Report to the District's accounting records. However, instead of reconciling these reports and records monthly, District personnel did not perform the June 2009 reconciliation until November 2009, resulting in overstatements of due from other agencies, due to other agencies, and other accounts, totaling approximately \$296,000, \$292,000, and \$4,000, respectively, in the Special Revenue – Other Fund. Further, because the District overstated these amounts, the District failed to identify and report the Special Revenue – Food Service Fund as a major fund, although the fund's liabilities, totaling approximately \$131,000, represented approximately 11 percent of the total governmental funds' liabilities. Untimely reconciliations of FDOE cash advance balances and program expenditures with the balances shown in the District's records limit the District's ability to properly monitor receipt and disbursement of Federal cash, and timely detect and correct errors in the accounting records or Federal financial reports.
- The District accurately included amounts, totaling approximately \$3.5 million, in the reported amounts for fixed capital outlay expenditures on its fund financial statements relating to energy savings equipment being installed at June 30, 2009. However, these amounts were not included in the amount reported as nondepreciable capital assets on the government-wide statements or in the District's note disclosures, representing construction in progress. In addition, Finding No. 2, Capital Assets, discusses additional deficiencies, which affected the notes to financial statements. Properly reporting such asset amounts on the financial statements may assist the District in determining the amount to subsequently capitalize to buildings and fixed equipment.

These and the other reporting errors occurred mainly because District personnel did not perform effective review procedures to ensure that amounts were properly reported on the financial statements. We extended our audit procedures to determine the necessary adjustments to properly report the account balances and note disclosures, and the District accepted these adjustments.

In addition, pursuant to State Board of Education Rule, 6A-1.087, Florida Administrative Code, an independent accounting firm provided audit reports for the District's 14 school internal funds for the 2008-09 fiscal year. The auditors noted several internal control deficiencies, resulting in errors and omissions, such that the auditors were unable to express opinions on the Carter-Parramore Academy and George W. Monroe and Stewart Street Elementary schools. While there were no reported balances for the Carter-Parramore Academy, the reported assets and liabilities for George W. Monroe and Stewart Street Elementary schools represent 7 and 9 percent of the assets and liabilities, respectively, of the aggregate remaining fund information presented in the District's financial statements. Examples of control deficiencies included receipts and expenses not properly recorded, inadequate documentation to support disbursements, and failure to prepare required financial reports. Further, professional auditing standards require that when other auditors report on a significant portion of an entity's financial statements, and the opinions contained in the reports are not unqualified, appropriate disclosures (qualifications) should be made in the auditor's report. Therefore, our report on the District's financial statements includes a qualification to that effect. The absence of adequate controls over school internal funds increases the risk that errors and fraud may occur and not be detected in a timely manner.

Recommendation: The District should enhance its review procedures over financial reporting to ensure that account balances and related note disclosures are properly reported on the financial statements. In addition, the District should take appropriate action to ensure that adequate accounting records are maintained by District schools.

SIGNIFICANT DEFICIENCY

Finding No. 2: Capital Assets

The District reported capital assets with costs totaling approximately \$77 million, net of accumulated depreciation, at June 30, 2009. To determine balances reported for these assets, District personnel generally added the 2008-09 fiscal year capital outlay expenditures to the balances reported on the financial statements at June 30, 2008. While this procedure may fairly present balances in the District's financial reports, it is not a substitute for establishing and maintaining an adequate record system to account for the District's individual capital assets.

As similarly noted in several previous reports, most recently in our report No. 2009-188, our review of subsidiary records maintained for the District's various capital asset types disclosed significant differences between asset balances in the District's detailed subsidiary records and amounts reported in the financial statements at June 30, 2009, for the following capital asset types:

Description	Balance - June 30, 2009		
	Per Note 4 of Financial Statements	Per Subsidiary Records	Differences
Improvements Other Than Buildings	\$ 3,823,352.00	\$ 3,502,482.69	\$ 320,869.31
Furniture, Fixtures, and Equipment	7,462,112.92	7,288,050.13	174,062.79
Motor Vehicles	6,445,767.83	6,891,646.85	(445,879.02)
Audio Visual Materials and Computer Software	3,646,427.76	2,480,821.56	1,165,606.20
Total	<u>\$ 21,377,660.51</u>	<u>\$ 20,163,001.23</u>	<u>\$ 1,214,659.28</u>

Through inquiry and review of District records, we noted the following that contributed to these differences:

- Differences noted for improvements other than buildings and audio visual materials and computer software were primarily for purchases made during the 2006-07 and 2007-08 fiscal years that have not been recorded in the District's subsidiary records.
- Differences noted for furniture, fixtures, and equipment resulted, in part, because the District removed from the active subsidiary records several items that were not approved for disposal or deletion by the Board until November 17, 2009.
- Subsidiary records for motor vehicles were different from the financial statement mainly due to items totaling approximately \$284,000, added to the subsidiary records in error during the conversion of the subsidiary records from one software format to another. In addition, we noted that two vehicles with a combined total cost of \$79,996, were deleted from the general ledger control accounts twice, instead of once, in error.

Chapters 274, Florida Statutes, and Department of Financial Services Rule 69I-73, Florida Administrative Code, require that the District maintain adequate records of tangible personal property in its custody and that the property be inventoried annually, compared to the property records, and that all discrepancies be reconciled. In addition, items not located during the inventory process must be promptly reported to the property custodian for a thorough investigation to be made, and a report must be filed with the appropriate law enforcement agency of items not located as a result of the investigation.

While the District implemented procedures to provide for an annual physical inventory of tangible personal property, which included follow-up on any differences noted, the District did not timely perform reconciliations of the physical inventory with subsidiary records and resolve differences promptly. As of October 18, 2009, the District had performed the annual physical inventory for 21 of its 22 cost centers; but had only completed reconciliations of the actual physical inventories for 16 of those cost centers. Further, our review of 4 cost center reconciliations disclosed 50 unlocated property items totaling \$57,820 (including numerous laptop computers, desktop computers, projectors, cameras, and computer printers) for which District records did not evidence whether the unlocated items were destroyed, lost, or stolen and reported to local law enforcement officials. Absent timely resolution of unlocated property items and accurate and complete detailed tangible personal property subsidiary records, the District's ability to properly account for these assets is adversely affected.

We also tested 32 capital outlay expenditures, totaling approximately \$4.3 million for the 2008-09 fiscal year, to determine whether the property items purchased were properly added to the subsidiary records and general ledger control accounts. The test disclosed that:

- The District entered in a 10-year energy savings contract and expended approximately \$3.5 million, but did not capitalize the expenditure to construction in progress, as discussed in Finding No. 1.
- Two student instructional material purchases, costing \$234,672 and \$2,250, respectively, were capitalized in error because the expenditures were partially or completely charged to improper object codes. In addition,

one expenditure totaling \$38,334, for a phone network system that should have been capitalized was not because the item was charged to the improper object code.

- Two items purchased, costing \$11,653 and \$4,470, were properly added to the general ledger control accounts, but neither were tagged and identified as District property nor added to the District's subsidiary records.

District personnel indicated that efforts are being made to record all capital assets on new accounting software. Without accurate detailed subsidiary property records, based on applicable general ledger transactions, the District has limited assurance that proper accountability is established for these assets.

Recommendation: The District should establish controls over its capital assets to provide accurate detailed subsidiary records. Also, District procedures should ensure that the results of annual physical inventories are timely reconciled to subsidiary property records and the proper resolution of unlocated items, as required. In addition, District procedures should be enhanced to ensure that property items purchased are correctly recorded and marked as property of the District.

ADDITIONAL MATTERS

Finding No. 3: Financial Condition

In governmental funds, reserve accounts are used to indicate the portion of fund balance that is restricted to specific purposes and not available for general appropriation by the Board, while the unreserved fund balance is designated to serve as a measure of net current financial resources available for general appropriation by the Board. The unreserved portion represents the amount that can be used with the most flexibility for emergencies and unforeseen situations. In addition, Section 1011.051, Florida Statutes, requires that the District maintain an unreserved fund balance in the General Fund that is sufficient to address normal contingencies. If at any time this balance is projected to fall below 3 percent of projected General Fund revenues, the Superintendent must provide written notification to the Board and the Florida Department of Education (FDOE). Further, if the balance is projected to fall below 2 percent of projected General Fund revenues, the Board should have a reasonable plan to avoid a financial emergency, or FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency.

Although the unreserved fund balance in the District's General Fund has increased from \$1,459,420.37 at June 30, 2008, to \$1,842,338.64 at June 30, 2009, which represented approximately 4 percent of General Fund revenues, the District may be required to reduce its General Fund unreserved fund balance to repay certain questioned costs totaling \$1,554,798.46. Such amounts include Federal questioned costs totaling \$713,073.78, as noted in our report No. 2008-126; \$414,640.74, as noted in our report No. 2009-188; and questioned costs totaling \$427,083.94, as noted in our Federal Awards Finding Nos. 1 through 5. In these circumstances, the District could have significantly less resources available for emergencies and unforeseen situations than other school districts of comparable size. To improve the financial condition of the General Fund during the 2008-09 fiscal year, District procedures included a reduction of 85 staff positions, restructuring support services, limiting expenditures based on necessity, and other cost reduction measures.

Recommendation: The District and the Superintendent should continue its efforts to closely monitor the District's budget to ensure that adequate fund balances are maintained for operating purposes.

Finding No. 4: Policies for Reporting Fraud

The District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities. In response to our inquiry in February 2010, District personnel informed us that the finance director is working to develop these policies. A similar finding was noted in our report No. 2009-188.

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

Finding No 5: Out-of-Field Teaching Assignments

State Board of Education Rule 6A-1.0503, Florida Administrative Code, defines qualified instructional personnel and provides, in part, the parameters governing the assignment of instructional staff members to teach outside their field of certification. This rule also states that school board approval must be obtained for out-of-field teaching assignments after a determination is made that a teacher with appropriate certification coverage is not available.

Our review of four teachers with out-of-field teaching assignments during the 2008-09 fiscal year disclosed that the Board did not approve the out-of-field assignments for two of the teachers. In addition, for the other two teachers, the Board did not approve their assignments until April 28, 2009, or approximately one month before the last day of school. The four teachers provided instruction in English, Spanish, history, science, and math classes at elementary, middle, and high schools. Teachers assigned to out-of-field duties, without timely Board approval, increase the risk that the best available candidate may not be selected to fill the position. Similar findings were noted in our report Nos. 2008-126 and 2009-188. Additional discussions relating to teacher qualifications are noted in Federal Awards Finding No. 3.

Recommendation: The District should enhance its procedures to ensure that the names and assignments of all teachers to out-of-field duties are presented to, and approved by, the Board.

Finding No. 6: Adult General Education Courses

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

As similarly noted in our report No. 2009-188, the District needs to establish controls over enrollment reporting. During the 2008-09 school year, the District reported 132,126 contact hours for adult general education classes to FDOE. Our tests of hours reported for 10 students enrolled in 17 adult general education classes disclosed the following:

- There were 312.50 hours overreported, including a student that enrolled, never attended, but was reported as attending 26 days (65 hours); a student that enrolled but did not begin attending until 30 days later (67.5 hours), and a student who was not withdrawn until 72 days (180 hours) after the last date attended.
- We noted hours were underreported for one student by 67.50 hours (27 days).
- We noted five students who enrolled in a class they never attended, but attended a different class. As a result the District reported 396 hours for the unattended classes, instead of the classes actually attended.

District personnel could not provide explanations of why the above errors occurred. Given the above reporting errors, and the apparent lack of controls over enrollment reporting, it is likely that other reporting errors have occurred. However, it was not practical for us to determine the full extent to which class hours were incorrectly reported for the 2008-09 fiscal year. Since further funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: **The District should establish controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.**

Finding No. 7: Purchasing Card Administration

The District provides purchasing cards to authorized employees to handle and expedite low dollar purchases of goods and services in a more efficient, effective, and economical manner than may be achieved through the purchase order system. In addition, the District contracted with a financial institution to provide the purchasing cards and process purchases, and the District placed certain dollar limits on employees' use of purchasing cards.

Our review of the District's purchasing card program indicated that improvements were needed in its administration and monitoring. The District did not have formal, written procedures that address various aspects related to purchasing cards such as the responsibilities of the cardholder, supervisor review and approval, individual transaction limits, prohibited uses such as loaning a purchasing card to others, the approval and payment of purchases, and procedures for lost or stolen cards. In addition, the District did not use cardholder agreements to evidence that each employee accepted their card and had read and understood the established conditions for card use. Established conditions should include procedures for preapproval of charges, prohibited personal or non-District related purchases, disciplinary action for unauthorized use, and other requirements. Effective cardholder agreements would establish the responsibilities of the cardholders and clearly communicate management's intentions regarding safeguarding card use.

During the 2008-09 fiscal year, the District assigned purchasing cards to nine employees, and purchasing card expenditures totaled approximately \$125,000. Our review of purchasing card expenditures, totaling \$27,122, disclosed the following:

- The District's informal procedures are for employees to submit procurement card receipt (PCR) forms, evidencing the receipt, accuracy, and appropriateness of the charges, to the finance department within 3 days of purchase. However, our testing of 22 forms supporting the April 2009 statement disclosed that employees

did not submit 16 forms timely, ranging from 18 to 45 days after the purchase occurred. District personnel indicated that the untimely submission of the PCR forms occurred mainly because the District did not designate anyone to properly monitor the process.

- District records did not contain adequate evidence, such as meeting agendas, documented explanations, or other correspondence, to support 17 purchasing card payments, totaling \$1,985.79. These expenditures were primarily for District administrator travel-related costs, such as hotel charges. While District personnel indicated that these costs were for valid educational purposes, the lack of documentation was due to oversights.

While our tests did not disclose any errors or fraud, the absence of adequate controls and procedures increases the risk that unauthorized or inappropriate uses of purchasing cards may occur and not be detected in a prompt manner.

Recommendation: The District should develop formal written procedures governing the use of purchasing cards and use a cardholder agreement to evidence each cardholder's acceptance of established conditions for card usage. Also, the District should enhance procedures to ensure that supervisory review and approval of purchasing card payments is documented, and PCR forms and adequate supporting documentation of payments are timely submitted to the finance department.

Finding No. 8: Information Technology – Security Awareness Training Program

A comprehensive security awareness training program apprises new users of, or reemphasizes to current users, the importance of preserving the confidentiality, integrity, and availability of data and information technology (IT) resources entrusted to them. Included in the data maintained by the District's IT systems are significant nonpublic records (e.g., student record information and other records that contain sensitive information). During the 2008-09 fiscal year, the District had not implemented a comprehensive security awareness training program to facilitate employees' education and training on security responsibilities, including data classification and acceptable or prohibited methods for storage and transmission, e-mail usage, password protection and usage, and workstation controls. Also, although the District required employees upon initial hire to sign an *Adult User: Terms and Conditions for Use of the Internet in the Gadsden School District* that covered, among other things, acceptable use of the Internet, prohibited transmissions, and vandalism, the District did not require employees to sign an annual acknowledgement of their awareness, understanding, and acceptance of other security-related responsibilities. A similar finding was noted in our report No. 2009-188.

The lack of a comprehensive security awareness training program increases the risk that the District's IT resources could be intentionally or unintentionally compromised by employees while performing their assigned duties. Subsequent to the audit period, the District developed a security awareness training program that included the aforementioned security awareness elements. On September 17, 2009, the District began the process of implementing its security awareness program Districtwide and expected to complete the implementation process during the 2009-10 fiscal year.

Recommendation: The District should promote security awareness through the continued implementation of its security awareness training program to ensure that all employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. Additionally, the District should require all employees to acknowledge in writing their understanding and acceptance of security-related responsibilities on an annual basis.

Finding No. 9: Information Technology – Disaster Recovery

As similarly noted in several previous reports, most recently in our report No. 2009-188, the District's disaster recovery provisions for its IT resources needed improvement to ensure timely recovery in the event of a disaster. The District entered into an agreement with International Business Machines Corporation (IBM) whereby IBM agreed to, as the result of any unplanned interruption of critical business and information processing beyond the District's control, provide equipment and remote service and support via telephone to a location chosen by the District or to an IBM recovery site. However, we noted that, as of January 2010, the District had not developed a formal disaster recovery plan that assigned the responsibilities to carry out disaster recovery activities to particular employees and designated an alternate processing site. According to District personnel, the District is in the process of contacting a provider to develop such a plan. Absent established procedures that assign responsibilities for minimizing the impact of a disaster on the District's IT resources and without a planned alternate processing site, the risk is increased that the District will not be able to timely restore IT operations in the event of a disaster.

Recommendation: **The District should continue its efforts to develop a formal disaster recovery plan that includes provisions for the assignment of staff responsibilities and an alternate processing site in the event of a disaster.**

Finding No. 10: 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. 2009-188, the District lacked written policies and procedures for the following IT functions:

- Changing or deleting vendor-supplied identification codes (IDs) and passwords upon installation.
- Addressing the provision of least privilege for service and application user accounts
- Creating, verifying use of, maintaining, changing, and reviewing user IDs and associated access privileges.
- Prohibiting sharing of IDs, including system administrator IDs.
- Defining responsibilities, access privileges, and activities for network, database, system, and security administrators and help desk staff.
- Addressing change, communication, and storage of administrative passwords.
- Prohibiting end-users from maintaining administrator rights on their workstations.
- Administering security devices (such as firewalls and routers).
- Resetting user passwords, including positive identification of the user.
- Determining compliance with password policies.
- Governing the requesting, prioritization, and authorization of system changes.

District personnel indicated that they are not convinced of the need for written policies and procedures, although procedures have been modified to address the above issues. 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.

Finding No. 11: Information Technology – Removal of Access Privileges

Effective management of system access privileges includes the timely removal of access privileges from former or reassigned employees, vendors, and consultants. Prompt action is necessary to ensure that access privileges are not misused by the former or reassigned employee, consultant, vendor, or others. When the District's IT personnel are notified of reassignments, resignations, retirements, and terminations, the employee, consultant, or vendor is either removed from the system or their user ID access privileges are changed accordingly. However, as similarly noted in our report 2009-188, District's IT personnel indicated that they were not being notified of reassignments, resignations, retirements, and terminations in a timely manner or on a regular basis in order to take the appropriate steps to remove or restrict access to District systems and applications. Without timely removal or restriction of access privileges, the risk is increased that access privileges could be misused.

Additionally, the District had not developed written policies and procedures governing the removal or restriction of access privileges of former or reassigned employees, consultants, and vendors because District personnel were uncertain of the benefits that such written documents would provide. Without written policies and procedures, the risk is increased that access privileges may not be consistently removed in a timely manner and pursuant to management's expectations.

Recommendation: The District should enhance its procedures to ensure that District IT personnel are timely notified of reassignments, resignations, retirements, and terminations so that they can promptly remove or restrict the access privileges of former or reassigned employees, consultants, and vendors. Additionally, the District should establish written policies and procedures governing the removal of access privileges.

Finding No. 12: Information Technology – Security Controls

Security controls over the District's resources are intended to protect the confidentiality, integrity, and availability of data and IT resources from unauthorized users. As similarly noted in our report No. 2009-188, certain security controls in the areas of logging, monitoring, and review of system activity; management of access privileges; and user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the District's data and IT resources. However, we have notified appropriate District management of the specific issues. Without appropriate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Title I Grants to Local Educational Agencies (CFDA No. 84.010)**Finding Type:** Material Noncompliance and Material Weakness**Questioned Costs:** \$192,835.50

Eligibility – Allocating Funds to Eligible Schools. The District is required, pursuant to Title 34, Section 200.78, Code of Federal Regulations, to allocate Title I schoolwide program funds to schools identified as eligible, and selected to participate, in rank order, based on the total number of children from low-income families in each school. The District is not required to allocate the same per-pupil amount to each participating school attendance area or school provided that it allocates higher per-pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty.

As part of our audit tests, we requested that the District provide documentation evidencing that the budget was properly allocated to the respective schools as required. The District provided copies of the budget allocations posted to the District's accounting records that indicated that the allocations to the high schools were in rank order; however, amounts were not allocated to other schools in rank order based upon the number of children from low-income families. We also noted that the District's spreadsheet used to calculate the budget allocations to each school disclosed that District personnel had initially provided the same per pupil amount to each school; however, the spreadsheet numbers did not correspond to budgetary entries for each school established in the District's accounting system and used to control expenditures. A review of the budget amendments disclosed that a final budget amendment was made at year-end to reallocate resources and eliminate any overexpenditures in the accounting records. This amendment reallocated resources from the Districtwide cost center for the Title I grant to the individual cost centers that had reported overexpenditures, and the Title I grant in total was not overexpended. However, by making this budget amendment, the District effectively reallocated Title I resources without regard to the schools rank order based upon the number of children from low income families, as follows:

School	Number of Low-Income Students	Percent of Low-Income Students	Ranking Based on Percentage of Low-Income Students	Title 1 per Pupil Allocation	Ranking Based On Per Pupil Allocation	Per Pupil Allocation Above #1 Ranked School	Amount Over Allocated Due to Final Budget Amendment
<u>Middle Schools:</u>							
James A. Shanks	517	85.0%	1	\$ 263.00	2		
Havana	178	82.0%	2	490.90	1	227.90	\$ 40,566.20
<u>Elementary Schools:</u>							
Stewart Street	429	96.2%	1	175.00	6		
George W. Munroe	580	91.9%	2	209.67	5	34.67	20,108.60
Havana	446	89.7%	3	223.28	4	48.28	21,532.88
Gretna	260	89.4%	4	175.00	6		
Chattahoochee	161	88.5%	5	491.15	1	316.15	50,900.15
St. Johns	313	87.2%	6	277.07	2	102.07	31,947.91
Greensboro	324	86.9%	7	260.74	3	85.74	27,779.76
Total Questioned Costs							\$ 192,835.50

In the above described circumstances, resources were not allocated to the schools in rank order of need, and amounts totaling \$192,835.50 represent questioned costs subject to disallowance by the grantor. In addition, when cost centers

are allowed to overexpend the Title I project budget, the risk increases that the program may not provide services to those students with the greatest educational needs.

Recommendation: District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and expended at, schools with the greatest needs, as required. Additionally, the District should document to its grantor (Florida Department of Education) how Title I schoolwide program resources were used at the schools with the greatest need, or restore \$192,835.50 to the Title I program.

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Special Education – Grants to States (CFDA No. 84.027)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$29,017.84 (CFDA No. 84.010) and \$32,242.25 (CFDA No. 84.027)

Allowable Costs/Cost Principles. The United State Office of Management and Budget *Circular A-87*, Attachment A, Section C.1., provides, in part, that costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards, and be adequately documented. Section C.3. further provides that a cost can be allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Our review disclosed that enhancements were needed for documenting the allowability and allocation of certain program costs.

During the 2007-08 fiscal year, the District entered into a three-year contract for an electronic parent notification system totaling \$55,755, and the first annual payment of \$18,585 was made from State and local funds. However, during the 2008-09 fiscal year, the two remaining payments totaling \$37,170, were made from Title I and Special Education program funds, totaling \$6,000 and \$31,170, respectively, and District records did not evidence the basis upon which these charges were made to the programs. Although the District's Title I program is operated as a schoolwide project at all Title I schools, one of the District's schools is not served under the District's Title I program. In addition, our review of the 2008-09 fiscal year student population revealed that only about 15 percent of the District's students had learning disabilities that would meet the eligibility requirements under the Special Education program. Failure to adequately document the allowability of program expenditures could result in payment for ineligible services and be subject to disallowance by the grantor. These direct charges and associated indirect costs, totaling \$38,389.25, represent questioned costs of the Title I and Special Education programs in the amounts of \$6,147 and \$32,242.25, respectively.

In addition, our tests of nine items, totaling approximately \$276,000, disclosed a payment totaling \$22,323.90 charged to the Title I program, for the purchase of antiviral software for individual computers and two servers, which were not included in the Title I grant application. As the expenditure was not anticipated in the original grant budget, it is unclear how the purchase was necessary and reasonable for the proper and efficient performance and administration of the Title I program and represents questioned costs subject to disallowance by the grantor. As a result of this direct charge and associated indirect costs, charges totaling \$22,870.84 represent questioned costs of the Title I program.

Recommendation: The District should enhance its procedures to document the allowability of program costs. Additionally, the District should document the allowability of the questioned costs, totaling \$61,260.09, to the grantor (Florida Department of Education) or restore the respective costs to the Title I and Special Education programs.

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

Federal Awards Finding No. 3:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$75,573.75

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

Our review of District records disclosed 4 of 10 teachers tested, who taught one or more core academic subjects at Title I schoolwide program schools, did not meet the requirements to be HQ for some of the core academic subjects they were teaching. Further, District records did not evidence the steps taken to obtain the appropriate certifications for these teachers, or the efforts to ensure the use of only HQ teachers for these classes. The salaries related to classes taught by the 4 teachers during the 2008-09 fiscal year totaled \$75,573.75, and represents questioned costs subject to disallowance by the grantor. Similar findings were noted in our report Nos. 2008-126 and 2009-188.

Having highly qualified staff would enhance the District's ability to properly educate Title I students and contribute toward meeting the adequate yearly progress standards set by the United States Department of Education.

Recommendation: The District should enhance procedures to ensure that all teachers hired to teach core academic subjects in Title I schoolwide program schools are highly qualified. Additionally, the District should document the allowability of these questioned costs, totaling \$75,573.75, to the grantor (Florida Department of Education) or restore this amount to the Title I program.

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

Federal Awards Finding No. 4:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Improving Teacher Quality State Grants (CFDA No. 84.367)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$45,026.55

Allowable Costs/Cost Principles. Section 2123(a) of The Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001, states in part that funds made available are to be used for developing and implementing mechanisms to assist schools in effectively recruiting and retaining highly qualified teachers, including specialists in core academic subjects, principals, and pupil services personnel, except that funds made available for pupil services personnel may be used only if all teachers teaching within the school district are highly qualified.

Our review of salary costs totaling \$161,182.59 for 10 employees charged to the Improving Teacher Quality (ITQ) program disclosed that a health services coordinator position was funded entirely by the program during the 2008-09 fiscal year. This position was to provide quality health, athletic and drug free services that address the social, emotional and education needs of children and families. However, these services did not meet the intent of the ITQ program, this position was not included in the District's approved ITQ program budget, and other District records did not evidence the allowability of these salary costs to the ITQ program. Consequently, these salary payments for the health services coordinator position and associated indirect costs, totaling \$45,026.55, represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should document the allowability of the questioned costs, totaling \$45,026.55, to the grantor (Florida Department of Education) or restore this amount to the ITQ program.

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

Federal Awards Finding No. 5:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$52,388.05

Allowable Costs/Cost Principles – Compensation of Personnel Services. Section 1114(a) of the Elementary and Secondary Education Act provides, as clarified in guidance provided by the United States Department of Education, dated February 2008, that Title I program moneys must be used to address the educational needs of a school identified by the needs assessment and articulated in the comprehensive plan, and may not be used for noneducational activities such as building maintenance and repairs, landscaping, and custodial services.

As similarly noted in our report No. 2009-188, certain salary and benefit amounts were incorrectly charged to the Title I schoolwide program. Two computer technicians maintained computer equipment at various Title I schoolwide schools, and their salary and benefits were funded 25 and 100 percent, respectively, from the Title I program. District personnel provided the grant application that indicated that these costs were preapproved by the Florida Department of Education, and that the services provided included maintenance of computer equipment that was used for educational services and was therefore allowable. However, the services provided by these two employees appear to be noneducational in nature, contrary to the above-cited Federal regulations. Accordingly, the computer technicians' salary and benefits and related indirect costs funded by the Title I program, totaling \$52,388.05, represent questioned costs subject to disallowance.

Recommendation: The District should document the allowability of the questioned costs, totaling \$52,388.05, to the grantor (Florida Department of Education) or restore this amount to the Title I program.

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

Federal Awards Finding No. 6:

Federal Agency: United States Department of Education and United State Department of Health and Human Services

Pass-Through Entity: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Improving Teacher Quality State Grants (CFDA No. 84.367); and Head Start (CFDA No. 93.600)

Finding Type: Noncompliance and Significant Deficiency

Equipment Management. Financial Statement Finding No. 2 addresses various deficiencies in controls over capital assets. These control weaknesses in accountability for Federal funding and related property impact the administration of the Federally-funded Title I, Special Education Cluster, Improving Teacher Quality, and Head Start programs.

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

District Contact Person: Bonnie Wood, Assistant Superintendent for Business and Finance

OTHER MATTER

In December 2009, the Florida Department of Education (FDOE) performed an onsite monitoring review of the District for the 2009-10 fiscal year. FDOE's preliminary report of this review cited the District for extensive noncompliance with Federal regulations and a cover letter, dated February 2010, accompanying the report, indicated that FDOE will be placing more restrictive conditions on one or more of the District's Federal awards, which may include:

- Restrictions on cash advances and allowing payment on a reimbursement basis only for selected Federal programs;
- Monthly reporting of expenditures and FDOE oversight of alignment of such expenditures with program requirements and plans;
- Hiring an outside consultant selected in conjunction with the FDOE to review and redesign financial systems to ensure adequate internal controls; and
- More frequent monitoring and individual technical assistance, including involvement in decision-making regarding program expenditures for Title I, Part A and School Improvement Grant funds before they are made.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-188.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

GADSDEN 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
2007-159 (3) 2008-126 (7)	Special Education - Grants to States (CFDA No. 84.027) / Allowable Costs/Cost Principles - Compensation of Personnel Services	Required semiannual certifications were not always prepared for employees who worked solely on the Special Education program. Additionally, monthly personnel activity reports were not prepared for employees who worked on multiple activities or cost objectives for the Special Education program.	Corrected	
2008-126 (1) 2009-188 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions - Highly Qualified Teachers	Enhancements were needed in District procedures to ensure that all teachers hired to work in the District's Title I program are highly qualified. In addition, the District should document to the Florida Department of Education (FDOE) the allowability of questioned costs, totaling \$433,692.12, or these moneys should be restored to the Title I program.	Not corrected	The grantor has sustained this finding; however, the grantor did not require the return of these questioned costs. District is enhancing procedures to ensure core subjects are taught by highly qualified teachers.
2008-126 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, and Earmarking	District General Fund per student expenditures at two of the District's schoolwide programs decreased in the amount of \$245,183.14. The District should document to FDOE the allowability of questioned costs, or these moneys should be restored to the Title I program.	Not corrected	The grantor has sustained this finding and has requested return of these questioned costs.
2008-126 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, and Earmarking - Targeting Funds for Supplemental Educational Services	Enhancements were needed in District procedures to ensure that all eligible students are provided supplemental educational services and the option to transfer to a qualified District school. Additionally, the District should document to FDOE the allowability of questioned costs, totaling \$34,198.52, or these moneys should be restored to the Title I program.	Corrected	The grantor has sustained this finding; however, the grantor did not require the return of these questioned costs.
2008-126 (6)	Fund for the Improvement of Education (CFDA No. 84.215) / Special Tests and Provisions - Private School Participation	Improvements were needed in the District's procedures to provide timely and meaningful consultation with private school officials regarding the design and development of programs to make Federally-funded services available.	Corrected	
2008-126 (9)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions	District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to the school in rank order based upon the number of children from low income families.	Not corrected	The grantor has sustained this finding; however, the grantor did not require any further corrective action. District continues to enhance budgeting procedures to ensure allocations to schools are in rank order.

**GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS (Continued)
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
2009-188 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions	District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and expended at, schools with the greatest needs, as required, and that the accounting records be maintained to evidence this. Additionally, the District should document to its grantor (FDOE) how Title I schoolwide program resources were used at the schools with the greatest needs, or restore \$323,365.74 to the Title I program.	Not corrected	The grantor has sustained this finding and has requested return of these questioned costs.
2009-188 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010; Special Education - Grants to States (CFDA No. 84.027) / Allowable Costs/Cost Principles - Compensation of Personnel Services	Required semiannual certifications were not always prepared for employees who worked solely on a single Federal program and monthly personnel activity reports for employees who worked on multiple activities or cost objectives. Additionally, the District should document the allowability of the questioned costs, totaling \$77,596, to the grantor (FDOE), or restore the costs to the Title I and Special Education programs.	Partially corrected	During the 2008-09 fiscal year, time and effort logs were maintained for the Special Education and Title I programs. However, the allowability of two Title I positions was not documented. In addition, the grantor has sustained this finding and has requested return of these questioned costs.
2009-188 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010; Fund for the Improvement of Education (CFDA No. 84.215) / Special Tests and Provisions - Private School Participation	The District should continue its efforts to ensure that private schools are annually provided the opportunity to participate in the Federally-funded programs. Additionally, Title I program funds were paid to a private school contractor, who was not highly qualified, resulting in questioned costs of \$13,679. The District should document the allowability of the questioned costs to the grantor (FDOE) or restore the costs to the program.	Not corrected	The grantor has sustained this finding and has requested return of these questioned costs.
2009-188 (5)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions - Comparability	District procedures should be revised, as necessary, to ensure compliance with the comparability requirements for the Title I program, and document to FDOE how its methodology demonstrated compliance.	Corrected	
2009-188 (6)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Fund for the Improvement of Education (CFDA No. 84.215, and Head Start (CFDA No. 93.600) / Equipment Management	District procedures should be implemented to provide adequate control over capital assets used in Federal programs.	Not corrected	

EXHIBIT A
MANAGEMENT'S RESPONSE

The School Board of Gadsden County



REGINALD C. JAMES
SUPERINTENDENT OF SCHOOLS

35 MARTIN LUTHER KING, JR. BLVD
QUINCY, FLORIDA 32351
TEL: (850) 627-9651
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<http://www.gcps.k12.fl.us>

March 19, 2010

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin:

Enclosed are the District's responses to the Preliminary and Tentative Audit Findings for the fiscal year ended June 30, 2009.

Please contact me if you have any questions or need additional information.

Sincerely,

Reginald C. James
Superintendent of Schools

RCJ:bw

ERIC F. HINSON
DISTRICT NO. 1
HAVANA, FL 32333

JUDGE B. HELMS, JR.
DISTRICT NO. 2
QUINCY, FL 32351

ISAAC SIMMONS, JR.
DISTRICT NO. 3
CHATTAHOOCHEE, FL 32324
GREENSBORO, FL 32330

CHARLIE D. FROST
DISTRICT NO. 4
GRETN, FL 32332
QUINCY, FL 32352

ROGER P. MILTON
DISTRICT NO. 5
QUINCY, FL 32353

BOARD MEETS FOURTH TUESDAY OF EACH MONTH
EQUAL OPPORTUNITY EMPLOYER

RESPONSES TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: Financial Reporting

During the 2008-2009 fiscal year, the District migrated its accounting records to new software. The transition to the new software contributed to the financial reporting issues noted. However, the new system is fully operational and it has significantly improved the District's ability to produce accurate and timely financial reports. During the 2009-2010 fiscal year, every account balance was reviewed for accuracy. The District has improved its procedures to ensure the accuracy and completeness of its financial statements.

Intensive staff training for new personnel following the retirements of seasoned employees has been provided for school-based bookkeepers. The District will hold school administrators accountable for internal funds in accordance with state regulations.

Finding No. 2: Capital Assets

During the 2008-2009 fiscal year, the District migrated the capital assets data from Excel spreadsheets to software designed specifically to provide required information such as the date of purchase, check number, and funding sources for each capital asset. The capabilities for designing queries to assist in controlling and reporting inventories have improved significantly.

During the 2009-2010 fiscal year, the District made improvements in reconciling the subsidiary records to the actual physical inventories. Also, the District will enforce existing procedures more vigorously to ensure the results of annual physical inventories are timely reconciled to the new system's subsidiary records, and that discrepancies are timely resolved. In addition, District procedures will be reviewed to ensure that the capabilities of the new system are fully utilized to ensure that property items purchased are properly marked as District property.

Finding No. 3: Financial Condition

The Board and Superintendent continue to closely monitor the District's budget and fund balance in the General Fund to ensure that adequate fund balances are maintained for operating purposes.

Finding No. 4: Policies for Reporting Fraud

The District is developing policies for communicating and reporting fraud to the appropriate authorities.

Finding No. 5: Out-of-Field Teaching Assignments

The District has enhanced its procedures to ensure that the names and assignments of all teachers are presented to and approved by the Board.

Finding No. 6: Adult General Education Courses

The District has established controls over the reporting of instructional contact hours for the adult general education courses to the Florida Department of Education.

Finding No. 7: Purchasing Card Administration

The District is in the process of developing formal written procedures to govern the use of purchasing cards including the use of a cardholder agreement to evidence each cardholder's acceptance of established conditions for card usage. The District has already implemented supervisory review and approval of purchasing card payments. Procedures have been established for the timely submission of receipts and supporting documentation.

Finding No. 8: Information Technology – Security Awareness Training Program

Procedures have been established to train employees annually on the importance of information and the related responsibilities for maintaining its confidentiality, integrity, and availability. Verification will be required by individual certifications that the security-related responsibilities are recognized. The District is in the process of ensuring that all employees will have completed the Security Awareness Training Program by April 20, 2010.

Finding No. 9: Information Technology – Disaster Recovery

The District is in the process of developing a formal, written disaster recovery plan, including staff responsibilities and an alternate processing site, in the event of a disaster. The District has a projected date for completion of a disaster recovery plan of December 31, 2010.

Finding No. 10: Information Technology - Written Policies and Procedures

The District will continue to work on establishing written policies and procedures to document management's expectations for the performance of Information Technology functions. The projected date for completion of these written policies and procedures is August 31, 2010.

Finding No. 11: Information Technology – Removal of Access Privileges

The District has established procedures to provide for the timely and accurate removal of access privileges. The procedures include the Personnel Specialist communicating data regarding reassignments, resignations, retirements, and terminations to the Information Technology personnel in a timely manner. When the School Board takes action on personnel that affects access, the Information Technology personnel will be notified promptly and initiate the appropriate actions to protect District data. In addition, the District will establish written policies and procedures governing the removal of access privileges by August 31, 2010.

Finding No. 12: Information Technology – Security Controls

The District will create policies and procedures that will improve the security controls to ensure the continued confidentiality, integrity, and availability of District data and Information Technology resources. These policies and procedures will be established by August 31, 2010.

Federal Awards

Federal Awards Finding No. 1: Eligibility – Allocating Funds to Eligible Schools

Beginning with the current year, the District will prepare budget amendments to allocate substantially all of the available Title 1 funds to the schools in rank order and control expenditures accordingly. Beginning with the next budget cycle, the District will make every effort to improve its planning processes with the goal of improving its utilization of available Title 1 funding.

We will discuss this matter in some detail with the Florida Department of Education, as you recommended. We do not understand why you would question costs, as only budget allocations are at issue. Because the District did not use budget allocations to the schools to control expenditures, the students at schools with higher percentages of low income students lost nothing as a result of District budget allocations. There was no adverse effect such as lost opportunities for additional benefits or services for the students at the lower ranked schools. During the audit period the District maintained a significant reserve of Title 1 funds, and officials at the District Schools were aware that the District would prepare budget amendments to cover over-expenditures. The District did prepare the budget amendments to cover the over expenditures, and this resulted in a final budget allocation that was no longer in rank order, as you reported.

In cases with similar findings, the U.S. Department of Education, Office of Inspector General (“OIG”) has determined that the appropriate remedy is for the school district to implement internal controls and for the State to provide technical assistance and professional development. See *OIG, Final Audit Report Regarding Results of Audit of Michigan's Local Educational Agencies Allocations of Elementary and Secondary Education Act of 1965 Funds*, at 6 (June 25, 2004); *OIG, Final Audit Report Regarding Results of Audit of Minnesota's Local Educational Agencies Allocations of Elementary and Secondary Education Act Funds*, at 4 (September 30, 2003). The District has hired a financial consultant to implement stronger internal controls, and will continue to implement further measures to improve its allocation of Title 1 funds.

Although not in our view appropriate, at most the Auditor General should take the approach from the November 8, 2004 OIG audit report entitled: *Georgia Department of Education's, Administration of Title I, Part A of the Elementary and Secondary Education Act of 1965*. This report contains a similar finding, and the recommendation was to recalculate the Title 1 allocation for the applicable year and make reparations in a subsequent year, from Title 1 funds, to the schools that did not receive the correct amount. See *id.* at 10. The Inspector General required a budgetary solution for a budgetary problem.

Federal Awards Finding No. 2: Allowable Costs/Cost Principles

The District will take positive steps to improve our processes for documenting the allowability of costs charged to Federal programs and that such costs are equitably allocated. In addition, we will provide documentation to the grantor demonstrating that the questioned costs were, in fact, allocable to the Federal programs to which they were charged, were necessary to the efficient administration of those programs, and that the costs charged to those programs were reasonable. Whether the annual anti-virus software renewals were included in the approved grant application, or not, we believe that the District would have been remiss in not protecting computers and servers acquired with Federal funds from malicious viral attacks.

Federal Awards Finding No. 3: Special Tests and Provisions – Highly Qualified Teachers

The District enhanced procedures to ensure that all teachers hired to teach core academic subjects in Title I schoolwide program schools are highly qualified. These written procedures include the provision for reassignments following the initial staffing and documentation requirements for instances where the District is forced to use non-highly qualified teachers.

Federal Awards Finding No. 4: Allowable Costs/Cost Principles

The District enhanced its procedures to document the allowability of program costs.

Federal Awards Finding No. 5: Allowable Costs/Cost Principles – Compensation of Personnel Services

The District disagrees with the finding. As you reported, these costs are included in the approved Title I grant, and the two computer technicians maintained computer equipment at Title I schools. Such activity does not fall under the definition of building maintenance and repairs, landscaping or custodial services. It is more economically efficient to maintain computers than to buy new ones. The District will document the allowability of the questioned costs, totaling \$52,388.05, to the Florida Department of Education.

Federal Awards Finding No. 6: Equipment Management

During the 2008-2009 fiscal year, the District migrated the capital assets data from Excel spreadsheets to software designed specifically to provide required information. The District is implementing procedures to provide adequate control over capital assets used in Federal programs.