

TAYLOR COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Mark A. Southerland	1
Brenda H. Carlton, Chair	2
Darrell Whiddon	3
Delton "Danny" Lundy, Vice Chair	4
Kenneth R. Dennis	5

Oscar M. Howard, Jr., Superintendent to 11-17-08

Paul Dyal, Superintendent from 11-18-08

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

The audit team leader was Nicole E. Cope and the audit was supervised by Karen L. Revell, CPA. 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.

**TAYLOR COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	9
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Net Assets – Proprietary Fund	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	20
Statement of Cash Flows – Proprietary Fund	21
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	22
Notes to Financial Statements	23
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds	42
Schedule of Funding Progress – Postemployment Healthcare Benefits Plan	44
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	45
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 <i>GOVERNMENT AUDITING STANDARDS</i>	46
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i>	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	51
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	70
EXHIBIT A – MANAGEMENT'S RESPONSE	72

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, three of which are considered material weaknesses, 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 WEAKNESSES

Finding No. 1: Further improvements are needed in the District's financial condition. The General Fund unreserved fund balance was \$186,345.22 and total fund balance was \$283,467.02 at June 30, 2009.

Finding No. 2: Enhancements could be made in the District's budgetary process.

Finding No. 3: The District reconciled its bank accounts to manually-maintained records; however, these records were not maintained by reporting fund and had not been reconciled to balances recorded on the District's general ledger.

SIGNIFICANT DEFICIENCIES

Finding No. 4: Improvements are needed in District procedures for ensuring the accuracy and completeness of the District's accounting records and annual financial report.

Finding No. 5: The District needed to establish procedures to separate duties associated with personnel and payroll responsibilities, or implement adequate compensating controls.

Finding No. 6: The District used capital outlay millage moneys, totaling approximately \$57,000, for unallowable purposes.

Finding No. 7: The District used Public Education Capital Outlay moneys, totaling \$23,795.40, for unallowable purposes.

Finding No. 8: In connection with a major construction project, the District did not comply with Section 287.055, Florida Statutes, in selecting the architect, and with Florida Department of Education requirements regarding prequalification of contractors.

ADDITIONAL MATTERS

Finding No. 9: The District purchased services from certain employees, contrary to Board policy.

Finding No. 10: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 11: The District could improve controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 12: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 13: The District's IT Disaster Recovery Plan lacked several key disaster recovery control elements and had not been tested.

Finding No. 14: An IT security control in the area of user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, Title I, Education Technology, 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 and Head Start programs. In addition, we noted compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: District procedures were not adequate to ensure that the status of Head Start cash was accurately reported and in agreement with District records.

Federal Awards Finding No. 2: District procedures for cash management of Federal programs provided by the Florida Department of Education (FDOE) needed improvement. Deficit cash balances were maintained throughout the year necessitating the use of non-Federal resources to fund Federal programs.

Federal Awards Finding No. 3: District procedures for monitoring and reporting Federal expenditures for grants received through the FDOE needed improvement.

Federal Awards Finding No. 4: The District used Title I program funds to reduce (supplant) the amount of other moneys used to operate the program, contrary to Federal regulations.

Federal Awards Finding No. 5: Controls to ensure salary and benefit costs are appropriately charged to Federal programs could be enhanced.

Federal Awards Finding No. 6: Improvements were needed in the District's administration of supplemental educational services and transportation choice options for students attending schools identified as in need of improvement.

Federal Awards Finding No. 7: District records did not evidence the District's compliance with the required in-kind matching contributions related to the Head Start program.

Federal Awards Finding No. 8: FDOE conducted a program review of the Twenty-First Century Program and noted certain control deficiencies and unallowable expenditures.

Federal Awards Finding No. 9: Four contracts for Child Nutrition program services, three contracts for Education Technology program services, and two contracts for Title I program services lacked certain contractual provisions, contrary to Federal regulations.

Audit Objectives and Scope

Our audit objectives were to determine whether the Taylor 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. 2009-171.

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Taylor 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 25 percent of the assets and 36 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Taylor County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds and the Taylor County Education Foundation, Inc., 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.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Taylor County District School Board as of June 30, 2009, and the respective changes in financial position and cash flows, where

applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 42 through 44) 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 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Taylor County District School Board (Board) has prepared the following discussion and analysis to a) assist the reader in focusing on significant issues; b) provide an overview of the District's financial activities for the fiscal year ended June 30, 2009; c) identify changes in the District's financial position; d) identify material deviations from the approved budget; and e) highlight significant issues in individual funds.

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

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$2,291,335.43, which represents an 8.02 percent increase from the 2007-08 fiscal year.
- General revenues total \$29,063,771.40. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$3,698,335.48.
- Expenses total \$30,470,771.45. Only \$3,698,335.48 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$2,291,335.43.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, was \$186,345.22 at June 30, 2009, or 0.84 percent of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Component unit – The District presents one separate legal entity in this report, the Taylor County Education Foundation, Inc. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

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. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories as discussed below.

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

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

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

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

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

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements

because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets, End of Fiscal Year

	Governmental Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 8,321,360.51	\$ 5,996,364.01
Capital Assets	30,008,464.11	30,667,693.69
Total Assets	38,329,824.62	36,664,057.70
Long-Term Liabilities	3,090,006.88	2,968,000.88
Other Liabilities	4,368,271.82	5,115,846.33
Total Liabilities	7,458,278.70	8,083,847.21
Net Assets:		
Invested in Capital Assets	30,008,464.11	30,667,693.69
Restricted	3,465,798.22	2,305,445.52
Unrestricted Deficit	(2,602,716.41)	(4,392,928.72)
Total Net Assets	\$30,871,545.92	\$28,580,210.49

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

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

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

	Governmental Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 679,190.30	\$ 945,163.07
Operating Grants and Contributions	1,799,673.75	1,759,946.28
Capital Grants and Contributions	1,219,471.43	510,382.28
General Revenues:		
Property Taxes, Levied for Operational Purposes	7,491,158.19	7,388,272.70
Property Taxes, Levied for Capital Projects	2,471,718.42	2,696,205.11
Grants and Contributions Not Restricted to Specific Programs	18,756,772.81	19,982,538.54
Unrestricted Investment Earnings	(49,257.19)	122,993.05
Miscellaneous	393,379.17	428,838.05
Total Revenues	32,762,106.88	33,834,339.08
Functions/Program Expenses:		
Instruction	15,059,690.23	16,731,188.58
Pupil Personnel Services	1,539,038.50	1,670,770.40
Instructional Media Services	263,932.64	316,331.52
Instruction and Curriculum Development Services	910,827.83	1,058,153.13
Instructional Staff Training Services	398,318.74	187,856.52
Instruction Related Technology	173,502.85	175,427.76
Board of Education	260,711.32	219,252.41
General Administration	372,015.21	341,770.66
School Administration	1,629,163.93	1,785,035.63
Facilities Acquisition and Construction	536,344.12	1,191,989.20
Fiscal Services	355,257.59	346,250.79
Food Services	1,397,353.87	1,550,930.55
Central Services	321,327.99	359,440.18
Pupil Transportation Services	1,919,443.87	2,259,367.08
Operation of Plant	2,692,774.03	2,978,438.21
Maintenance of Plant	666,144.62	688,892.46
Administrative Technology Services	210,620.15	177,343.24
Community Services	438,475.11	265,696.73
Interest on Long-Term Debt	27,350.72	59.18
Unallocated Depreciation Expense	1,296,561.49	1,285,486.49
Loss on Disposal of Capital Assets	1,916.64	3,846.70
Total Functions/Program Expenses	30,470,771.45	33,593,527.42
Increase in Net Assets	\$ 2,291,335.43	\$ 240,811.66

Grants and contributions not restricted to specific programs represent 57.25 percent of total governmental revenues. The largest source of funding within this category is the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. During the 2008-09 fiscal year, the District's FEFP revenue was reduced due to declining enrollment and a reduction in per student FEFP funding. The \$1,156,416 decline in FEFP was the primary factor for the decrease in grants and contributions not restricted to specific programs.

Capital grants and contributions are primarily for the acquisition, construction, and maintenance of educational facilities. These revenues increased by \$709,089.15, or 138.93, percent from the previous year due mainly to the start of a new construction project.

Instruction expenses represent 49.42 percent of total governmental expenses in the 2008-09 fiscal year. Instruction expenses decreased by \$1,671,498.35 from the 2007-08 fiscal year because the District reduced the number of positions, work hours per day, and contract days, resulting in a reduction of salary expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the 2008-09 fiscal year, unreserved fund balance is \$186,345.22, while the total fund balance is \$283,467.02. The total fund balance increased by \$1,420,456.88 during the 2008-09 fiscal year. While State revenues decreased \$1,819,499.97, expenditures decreased by \$3,344,766.80 primarily due to reduced salary expenditures. Additionally, bus routes were changed and other expenditures were limited.

The Special Revenue – Other Fund is used to account for Federal grant programs, and allowed expenditures are specified by grant agreements. Revenues and expenditures were 10.82 percent more than the previous year due to additional grant dollars awarded. Since the revenues in this fund are equal to amounts expended, there is no ending fund balance.

The Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund have total fund balances of \$119,917.76, \$3,029,278.88, and \$221,022.89, respectively, which are restricted for the acquisition, construction, and maintenance of capital assets. The Capital Projects – Public Education Capital Outlay Fund fund balance decreased in the 2008-09 fiscal year by \$15,334.44 due, in part, to an increase in facilities acquisition and construction expenditures. The Capital Projects – Local Capital Improvement Fund fund balance increased in the 2008-09 fiscal year by \$1,221,999.44 due to a significant decrease in purchases of computers and buses. The Capital Projects – Other Fund fund balance increased in the 2008-09 fiscal year by \$218,311.57 due to an increase in State revenue relating to the Taylor County Middle School/Steinhatchee K-8 construction project. The entire fund balance of the Capital Projects – Public Education Capital Outlay Fund and Capital Projects – Other Fund has been encumbered for specific projects.

Proprietary Fund

The internal service fund has total net assets of \$146,141.93. The increase in net assets during the 2008-09 fiscal year totaled \$113,967.97, primarily because of lower than expected insurance claims, premiums, and administrative expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times; however, final budgeted amounts were in line with original budgeted amounts.

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 \$30,008,464.11 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

Additional information on the District's capital assets can be found in Notes 4 and 13 to the financial statements.

Long-Term Debt

At June 30, 2009, the District had no long-term bonded debt outstanding.

OTHER MATTERS OF SIGNIFICANCE

The Board is in a precarious financial condition, and we are facing uncertain economic times. The impact of pending budget reductions at the State level remains unknown at this time. In light of uncertain economic times, the Board has eliminated certain positions, decreased bus routes, and closed the Technical Learning Center to reduce costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Taylor 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 Vicki McManus, Finance Director, Taylor County District School Board, 318 North Clark Street, Perry, FL 32347.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash	\$ 4,570,493.28	\$ 25,640.00
Accounts Receivable	4,560.42	
Due from Other Agencies	3,493,608.59	
Prepaid Tuition		12,528.00
Investments	101,847.19	67,555.00
Inventories	150,851.03	
Capital Assets:		
Nondepreciable Capital Assets	1,747,578.81	
Depreciable Capital Assets, Net	28,260,885.30	
TOTAL ASSETS	\$ 38,329,824.62	\$ 105,723.00
LIABILITIES		
Salaries and Benefits Payable	\$ 1,750,219.55	\$
Payroll Deductions and Withholdings	856,232.93	
Accounts Payable	365,689.28	
Construction Contracts Payable	139,184.76	
Construction Contracts Payable - Retainage	22,625.55	
Due to Other Agencies	1,385.82	
Deferred Revenue	1,127,988.93	
Estimated Insurance Claims Payable	104,945.00	
Long-Term Liabilities:		
Portion Due Within One Year	295,895.22	
Portion Due After One Year	2,794,111.66	
Total Liabilities	7,458,278.70	
NET ASSETS		
Invested in Capital Assets	30,008,464.11	
Restricted for:		
Capital Projects	3,465,798.22	48,124.00
Other Purposes		57,599.00
Unrestricted	(2,602,716.41)	
Total Net Assets	30,871,545.92	105,723.00
TOTAL LIABILITIES AND NET ASSETS	\$ 38,329,824.62	\$ 105,723.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 15,059,690.23	\$ 278,425.41	\$	\$
Pupil Personnel Services	1,539,038.50			
Instructional Media Services	263,932.64			
Instruction and Curriculum Development Services	910,827.83			
Instructional Staff Training Services	398,318.74			
Instruction Related Technology	173,502.85			
Board of Education	260,711.32			
General Administration	372,015.21			
School Administration	1,629,163.93			
Facilities Acquisition and Construction	536,344.12			1,005,244.43
Fiscal Services	355,257.59			
Food Services	1,397,353.87	376,591.61	1,111,372.75	
Central Services	321,327.99			
Pupil Transportation Services	1,919,443.87	24,173.28	688,301.00	
Operation of Plant	2,692,774.03			
Maintenance of Plant	666,144.62			214,227.00
Administrative Technology Services	210,620.15			
Community Services	438,475.11			
Interest on Long-Term Debt	27,350.72			
Unallocated Depreciation Expense	1,296,561.49			
Loss on Disposal of Capital Assets	1,916.64			
Total Primary Government	\$ 30,470,771.45	\$ 679,190.30	\$ 1,799,673.75	\$ 1,219,471.43
Component Unit				
Taylor County Education Foundation, Inc.	\$ 16,241.00	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Component	
Governmental		Unit	
Activities			
\$	(14,781,264.82)	\$	
	(1,539,038.50)		
	(263,932.64)		
	(910,827.83)		
	(398,318.74)		
	(173,502.85)		
	(260,711.32)		
	(372,015.21)		
	(1,629,163.93)		
	468,900.31		
	(355,257.59)		
	90,610.49		
	(321,327.99)		
	(1,206,969.59)		
	(2,692,774.03)		
	(451,917.62)		
	(210,620.15)		
	(438,475.11)		
	(27,350.72)		
	(1,296,561.49)		
	(1,916.64)		
	(26,772,435.97)		
			(16,241.00)
	7,491,158.19		
	2,471,718.42		
	18,756,772.81	9,314.00	
	(49,257.19)	1,609.00	
	393,379.17		
	29,063,771.40	10,923.00	
	2,291,335.43	(5,318.00)	
	28,580,210.49	111,041.00	
\$	30,871,545.92	\$	105,723.00

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

	General Fund	Special Revenue - Other Fund	Capital Projects - Public Education Capital Outlay Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 1,027,283.01	\$	\$
Accounts Receivable	1,755.15	229.31	
Due from Other Funds	1,495,936.19		
Due from Other Agencies	81,561.42	1,854,217.45	663,123.22
Investments	33,161.99		
Inventories	77,057.53		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 2,716,755.29</u></u>	<u><u>\$ 1,854,446.76</u></u>	<u><u>\$ 663,123.22</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 1,474,677.19	\$ 209,313.87	\$
Payroll Deductions and Withholdings	712,464.10	114,801.77	
Accounts Payable	103,459.96	3,796.38	350.00
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	142,687.02	1,515,884.99	8,596.46
Due to Other Agencies		1,385.82	
Deferred Revenue		9,263.93	534,259.00
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,433,288.27</u>	<u>1,854,446.76</u>	<u>543,205.46</u>
Fund Balances:			
Reserved for Encumbrances	97,121.80		119,917.76
Unreserved, Reported in:			
General Fund	186,345.22		
Special Revenue Funds			
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>283,467.02</u>		<u>119,917.76</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 2,716,755.29</u></u>	<u><u>\$ 1,854,446.76</u></u>	<u><u>\$ 663,123.22</u></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
\$ 2,966,947.94	\$ 79,444.21	\$ 188,871.96	\$ 4,262,547.12
2,575.96			4,560.42
			1,495,936.19
98.46	891,844.93	2,763.11	3,493,608.59
68,685.20			101,847.19
		73,793.50	150,851.03
\$ 3,038,307.56	\$ 971,289.14	\$ 265,428.57	\$ 9,509,350.54
\$	\$	\$	\$
		66,228.49	1,750,219.55
		28,967.06	856,232.93
9,028.68	3,989.94	4,397.50	125,022.46
	139,184.76		139,184.76
	22,625.55		22,625.55
		12,575.31	1,679,743.78
			1,385.82
	584,466.00		1,127,988.93
9,028.68	750,266.25	112,168.36	5,702,403.78
254,395.34	221,022.89	87,787.04	780,244.83
			186,345.22
		41,286.38	41,286.38
2,774,883.54		24,186.79	2,799,070.33
3,029,278.88	221,022.89	153,260.21	3,806,946.76
\$ 3,038,307.56	\$ 971,289.14	\$ 265,428.57	\$ 9,509,350.54

TAYLOR 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	\$	3,806,946.76
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		30,008,464.11
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		146,141.93
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Compensated Absences Payable	\$ 2,938,346.88	
Postemployment Healthcare Benefits Payable	151,660.00	(3,090,006.88)

Total Net Assets - Governmental Activities	\$	<u>30,871,545.92</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Other Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 49,540.32	\$ 1,417,892.36	\$
Federal Through State and Local	147,465.21	3,359,557.88	
State	14,460,898.21		370,002.00
Local:			
Property Taxes	7,491,158.19		
Charges for Services - Food Service			
Miscellaneous	663,043.25	1,385.82	
Total Revenues	<u>22,812,105.18</u>	<u>4,778,836.06</u>	<u>370,002.00</u>
Expenditures			
Current - Education:			
Instruction	12,330,305.55	2,722,619.29	1,383.13
Pupil Personnel Services	1,135,640.82	403,080.80	
Instructional Media Services	263,460.11		363.98
Instruction and Curriculum Development Services	608,424.35	302,123.54	
Instructional Staff Training Services	30,140.75	368,173.10	
Instruction Related Technology	87,641.22	58,326.80	
Board of Education	260,763.99	426.00	
General Administration	248,071.61	123,493.88	354.63
School Administration	1,491,524.87	136,987.65	
Facilities Acquisition and Construction		45,293.42	42,568.00
Fiscal Services	352,968.40	1,777.77	
Food Services	3,196.45	15,771.25	
Central Services	321,223.36		
Pupil Transportation Services	1,531,833.60	91,271.55	
Operation of Plant	2,645,665.52	39,191.38	7,619.46
Maintenance of Plant	495,388.94		170,021.84
Administrative Technology Services	200,176.76	1,336.65	
Community Services	62,492.13	375,651.96	310.45
Fixed Capital Outlay:			
Facilities Acquisition and Construction			145,114.01
Other Capital Outlay	63,608.86	93,311.02	17,600.94
Debt Service:			
Interest and Fiscal Charges	27,290.61		
Total Expenditures	<u>22,159,817.90</u>	<u>4,778,836.06</u>	<u>385,336.44</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>652,287.28</u>		<u>(15,334.44)</u>
Other Financing Sources (Uses)			
Transfers In	846,818.89		
Transfers Out	(78,649.29)		
Total Other Financing Sources (Uses)	<u>768,169.60</u>		
Net Change in Fund Balances	1,420,456.88		(15,334.44)
Fund Balances, Beginning	(1,136,989.86)		135,252.20
Fund Balances, Ending	<u>\$ 283,467.02</u>	<u>\$ 0.00</u>	<u>\$ 119,917.76</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
\$	\$	\$	\$
		1,078,775.75	1,467,432.68
	726,540.55	163,761.43	4,585,798.84
			15,721,202.19
2,471,718.42			9,962,876.61
		376,591.61	376,591.61
(52,610.39)		2,891.02	614,709.70
2,419,108.03	726,540.55	1,622,019.81	32,728,611.63
32.71			15,054,340.68
			1,538,721.62
			263,824.09
			910,547.89
			398,313.85
27,020.36			172,988.38
			261,189.99
			371,920.12
			1,628,512.52
318,075.37		130,407.33	536,344.12
367.22			355,113.39
		1,378,382.78	1,397,350.48
			321,223.36
			1,623,105.15
			2,692,476.36
641.96			666,052.74
9,038.05			210,551.46
			438,454.54
	508,228.98		653,342.99
73,763.32			248,284.14
		60.11	27,350.72
428,938.99	508,228.98	1,508,850.22	29,770,008.59
1,990,169.04	218,311.57	113,169.59	2,958,603.04
78,649.29			925,468.18
(846,818.89)			(925,468.18)
(768,169.60)			
1,221,999.44	218,311.57	113,169.59	2,958,603.04
1,807,279.44	2,711.32	40,090.62	848,343.72
\$ 3,029,278.88	\$ 221,022.89	\$ 153,260.21	\$ 3,806,946.76

TAYLOR 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 \$ 2,958,603.04

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 depreciation expense in excess of capital outlays in the current period. (657,312.94)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (1,916.64)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current period. 29,654.00

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. (151,660.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of the internal service fund is reported with governmental activities. 113,967.97

Change in Net Assets - Governmental Activities \$ 2,291,335.43

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

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2009**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash	\$ 307,946.16
Due From Other Funds	183,807.59
Total Assets	\$ 491,753.75
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 240,666.82
Estimated Insurance Claims Payable	104,945.00
Total Liabilities	345,611.82
NET ASSETS	
Unrestricted	146,141.93
TOTAL LIABILITIES AND NET ASSETS	\$ 491,753.75

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

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

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues	\$ 1,986,978.42
Other Operating Revenues	69,401.14
Total Operating Revenues	2,056,379.56
OPERATING EXPENSES	
Insurance Claims	1,261,484.96
Insurance Premiums	528,909.42
Purchased Services	4,704.50
Administrative Expense	147,312.71
Total Operating Expenses	1,942,411.59
Operating Income	113,967.97
Total Net Assets - Beginning	32,173.96
Total Net Assets - Ending	\$ 146,141.93

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

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

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Premiums	\$ 1,997,769.98
Cash Received from Other Operating Revenues	69,401.14
Cash Payments for Insurance Claims	(1,256,712.96)
Cash Payments for Premiums and Other Fees	(506,292.65)
Cash Payments for Administrative Expense	(147,312.71)
Cash Payments for Purchased Services	(4,704.50)
Net Cash Provided by Operating Activities	<u>152,148.30</u>
Cash, Beginning	<u>155,797.86</u>
Cash, Ending	<u><u>\$ 307,946.16</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ 113,967.97
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Due From Other Funds	10,791.56
Increase in Accounts Payable	22,616.77
Increase in Estimated Insurance Claims Payable	4,772.00
Total Adjustments	<u>38,180.33</u>
Net Cash Provided by Operating Activities	<u><u>\$ 152,148.30</u></u>

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

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

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 258,772.72</u>
LIABILITIES	
Internal Accounts Payable	<u>\$ 258,772.72</u>

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

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

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

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

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the Taylor County Education Foundation, Inc. (Foundation), which was formed to provide charitable and educational aid to the School Board; to promote education; and to encourage research, learning, and the dissemination of information. Because the School Board appoints all members of the Foundation's Board, and is able to impose its will on the Foundation, the Foundation is considered a component unit. An annual postaudit of the Foundation's financial statements is conducted by an independent certified public accountant, and the audit report is filed in the District's administrative office.

➤ **Basis of Presentation**

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

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

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

the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Fund to be used for educational capital outlay needs, including new construction, maintenance, and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects, new and replacement equipment, and motor vehicle (bus) purchases.
- Capital Projects – Other Fund – to account for various financial resources including Classrooms First, Classrooms for Kids, and Class Size Reduction Construction to be used for educational capital outlay needs, including new construction, renovation, and remodeling projects.

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

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

➤ **Basis of Accounting**

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 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.

The proprietary fund is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges for employee health insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

➤ **Deposits and Investments**

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. The statement of cash flows considers cash as those accounts used as demand deposits accounts.

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

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

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, transportation supplies, and fuel held for consumption in the course of District operations. Inventories are valued at last invoice price, which approximates the first-in, first-out basis (FIFO), except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	20 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

Current fiscal 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, 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 fiscal year are reported in a subsequent note.

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

➤ **State Revenue Sources**

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

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

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

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

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

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 Taylor County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

➤ **Budgetary Information**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- 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 fiscal year's appropriations.

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

➤ **Expenditures Over Appropriations in Individual Funds**

For the fiscal year ended June 30, 2009, expenditures exceeded appropriations for the following individual funds:

Fund/Activity	Expenditures and Transfers Out		
	Budget	Actual	Variance Unfavorable
General:			
Instruction	\$12,021,989.59	\$ 12,330,305.55	\$ (308,315.96)
Pupil Personnel Services	1,109,311.00	1,135,640.82	(26,329.82)
Instruction Related Technology	83,015.00	87,641.22	(4,626.22)
Board of Education	223,770.00	260,763.99	(36,993.99)
Fiscal Services	329,502.00	352,968.40	(23,466.40)
Food Services		3,196.45	(3,196.45)
Pupil Transportation Services	1,418,642.00	1,531,833.60	(113,191.60)
Maintenance of Plant	459,718.55	495,388.94	(35,670.39)
Administrative Technology Services	193,784.00	200,176.76	(6,392.76)
Community Services	51,459.00	62,492.13	(11,033.13)
Interest and Fiscal Charges	14,000.00	27,290.61	(13,290.61)
Transfers Out		78,649.29	(78,649.29)
Special Revenue - Other:			
Instruction	2,171,858.28	2,722,619.29	(550,761.01)
Instruction and Curriculum Development Services	198,236.40	302,123.54	(103,887.14)
Instructional Staff Training Services	94,107.38	368,173.10	(274,065.72)
Instruction Related Technology	7,315.96	58,326.80	(51,010.84)
Board of Education		426.00	(426.00)
Facilities Acquisition and Construction	6,428.00	45,293.42	(38,865.42)
Food Services		15,771.25	(15,771.25)
Administrative Technology Services		1,336.65	(1,336.65)
Community Services	3,281.00	375,651.96	(372,370.96)
Capital Projects - Local Capital Improvement:			
Transfers Out	516,123.89	846,818.89	(330,695.00)

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 the District's investment choices, and the policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments with a fair value of \$31,583.72 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.

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

Investments with a fair value of \$70,263.47 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.

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	\$ 856,163.41	\$	\$	\$ 856,163.41
Land Improvements - Nondepreciable	238,072.41			238,072.41
Construction In Progress		653,342.99		653,342.99
Total Capital Assets Not Being Depreciated	1,094,235.82	653,342.99		1,747,578.81
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	137,844.33			137,844.33
Buildings and Fixed Equipment	38,828,798.07			38,828,798.07
Furniture, Fixtures, and Equipment	5,331,651.81	281,779.39	117,621.78	5,495,809.42
Motor Vehicles	4,443,329.98		244,328.00	4,199,001.98
Audio Visual Materials and Computer Software	85,053.57			85,053.57
Total Capital Assets Being Depreciated	48,826,677.76	281,779.39	361,949.78	48,746,507.37
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,764.73	6,892.22		10,656.95
Buildings and Fixed Equipment	13,090,617.41	721,231.94		13,811,849.35
Furniture, Fixtures, and Equipment	3,281,546.78	559,471.89	115,705.14	3,725,313.53
Motor Vehicles	2,821,040.23	295,873.83	244,328.00	2,872,586.06
Audio Visual Materials and Computer Software	56,250.74	8,965.44		65,216.18
Total Accumulated Depreciation	19,253,219.89	1,592,435.32	360,033.14	20,485,622.07
Total Capital Assets Being Depreciated, Net	29,573,457.87	(1,310,655.93)	1,916.64	28,260,885.30
Governmental Activities Capital Assets, Net	\$30,667,693.69	\$ (657,312.94)	\$ 1,916.64	\$30,008,464.11

**TAYLOR 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	\$ 295,873.83
Unallocated	1,296,561.49
Total Depreciation Expense - Governmental Activities	\$ 1,592,435.32

5. CHANGES IN SHORT-TERM DEBT

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

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0.00	\$ 2,850,000.00	\$ 2,850,000.00	\$ 0.00

On September 12, 2008, the District obtained a revolving line-of-credit in the amount of \$2,000,000 from the Capital City Bank at a 3.8 percent fixed rate of return. Proceeds from the tax anticipation note were used to fund District operations until the receipt of ad valorem tax revenue. On December 2, 2008, the line-of-credit was increased to \$4,000,000. This loan was repaid by the District on February 4, 2009.

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Compensated Absences Payable	\$ 2,968,000.88	\$ 423,242.77	\$ 452,896.77	\$ 2,938,346.88	\$ 295,895.22
Postemployment Healthcare Benefits Payable		308,135.00	156,475.00	151,660.00	
Total Governmental Activities	\$ 2,968,000.88	\$ 731,377.77	\$ 609,371.77	\$ 3,090,006.88	\$ 295,895.22

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

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 1,495,936.19	\$ 142,687.02
Special Revenue:		
Other		1,515,884.99
Capital Projects:		
Public Education Capital Outlay		8,596.46
Nonmajor Governmental		12,575.31
Internal Service Fund	183,807.59	
Total	<u>\$ 1,679,743.78</u>	<u>\$ 1,679,743.78</u>

The receivables and payables generally occurred during the normal course of district operations, except that amounts due to the General Fund represent temporary loans to cover cash deficits. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 846,818.89	\$ 78,649.29
Capital Projects:		
Local Capital Improvement	78,649.29	846,818.89
Total	<u>\$ 925,468.18</u>	<u>\$ 925,468.18</u>

The transfer to the General Fund was made to move restricted revenues to offset maintenance expenditures, property and casualty insurance premiums, and computer technicians' salaries. The transfer to the Capital Projects – Local Capital Improvement Fund was made for repayment of prior year unallowed expenditures.

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

8. RESERVE FOR ENCUMBRANCES

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

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

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$89,395.43 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:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 8,220,926.00
Categorical Educational Programs:	
Class Size Reduction	2,874,141.00
Transportation	688,301.00
Instructional Materials	295,114.00
Other	535,871.07
Workforce Development Program	1,392,700.00
Class Size Reduction Construction	587,562.00
Gross Receipts Tax (Public Education Capital Outlay)	370,002.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	131,164.43
Classrooms First	130,743.00
Miscellaneous	494,677.69
Total	<u>\$ 15,721,202.19</u>

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

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

10. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.593	\$ 6,730,157.40
Basic Discretionary Local Effort	0.498	729,723.14
Supplemental Discretionary Local Effort	0.214	313,575.81
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.750	2,564,288.14
Total	<u>7.055</u>	<u>\$ 10,337,744.49</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. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 28 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$68,570.08.

FRS Retirement Contribution Rates

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$1,884,872.05, \$1,742,530.83, and \$1,629,379.16, 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.

**TAYLOR 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 \$3,248,975 at the July 1, 2008, date of transition amortized over 20 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. 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 and plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 49 retirees received postemployment healthcare benefits. The District provided required contributions of \$156,475 toward the annual OPEB cost. Plan members receiving benefits contributed \$176,105 through their required contributions ranging from \$245 to \$277 per month for retiree-only coverage, and from \$398 to \$466 for retiree and spouse coverage, depending on Medicare eligibility.

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:

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

Description	Amount
Normal Cost (service cost for one year)	\$147,738
Amortization of Unfunded Actuarial Accrued Liability	153,203
Interest on Normal Cost and Amortization	7,194
Annual Required Contribution	308,135
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	
Annual OPEB Cost (Expense)	308,135
Contribution Toward the OPEB Cost	(156,475)
Increase in Net OPEB Obligation	151,660
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	<u>\$ 151,660</u>

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

Year	OPEB Cost	Annual OPEB Cost Contributed	Obligation
Beginning Balance, 7-1-08	\$		\$ 0
2008-09	308,135	50.78%	151,660

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$3,248,975, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,248,975 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$11,110,240 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 29.24 percent.

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

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

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

The District's initial OPEB actuarial valuation as of October 1, 2007, used the individual 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 3.2 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 9 percent beginning October 1, 2008, reduced to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 19 years.

13. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Taylor Middle School/Steinhatchee K-8 - Roofing, Sidewalks, Other Renovations			
Architect	\$ 63,369.42	\$ 54,331.34	\$ 9,038.08
Contractor	720,107.00	593,121.75	126,985.25
Total	<u>\$ 783,476.42</u>	<u>\$ 647,453.09</u>	<u>\$ 136,023.33</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. The Taylor County District School Board has established self-insurance programs for its employee health and hospitalization coverage. For its other insurance coverage, the Board is a member of the Florida School Board Insurance Trust (Trust) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Trust. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Trust is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. If a member district withdraws or terminates participation in the Trust, and its claims exceed loss

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

fund contributions from premiums paid, the Trust may request additional funds or return the open claims to the member district. The Board of Directors for the Trust is mainly composed of board members and a district level business officer selected from participating districts. The District reports financial transactions related to these insurance coverages in the General Fund.

Employee group health and hospitalization coverage is being provided on a self-insured basis up to specified limits. The District entered into an agreement with a commercial insurance company to provide specific excess coverage of amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims exceed a loss limit established by the policy. The District has also contracted with a commercial insurance company to administer the programs under an agreement wherein the claims for benefits are paid by the insurance company, which is subsequently reimbursed by the District for claims paid plus an administrative expense. The District reports the financial transactions of its employee group insurance programs in an internal service fund.

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

A claims liability of \$104,945 is reported in the internal service fund at June 30, 2009, to cover estimated incurred but not reported insurance claims payable.

The following schedule represents the changes in the claims liability for the past two fiscal years:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2007-08	\$ 100,173	\$ 1,330,397	\$ (1,330,397)	\$ 100,173
2008-09	100,173	1,261,485	(1,256,713)	104,945

15. 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 District has unresolved questioned costs from the 2005-06, 2006-07, 2007-08, and 2008-09 fiscal years totaling \$263,257.91, \$49,862.75, \$1,012,433.23, and \$613,868.38, respectively. If these questioned costs noted by the auditor were disallowed by the applicable oversight agencies, these amounts would have a material effect on the District's overall financial position.

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

16. SUBSEQUENT EVENTS

On October 7, 2009, the Board obtained a revolving line-of-credit in the amount of \$2,000,000, at 3.89 percent fixed rate of interest. The purpose of the line-of-credit was to provide funding, if needed, for District operations until the receipt of ad valorem tax revenues. The District borrowed \$1,250,000 on the line-of-credit and repaid the loan on December 23, 2009.

17. LITIGATION

The District is in dispute with the Taylor County Non-Instructional Association (TCNIA), and the Taylor Education Association (TEA), regarding the District's payroll practices. The TCNIA alleges that the District improperly withheld a pay step increase, and the TEA alleges that the District improperly withheld two pay step increases, contrary to its collective bargaining agreements with the School Board. The District is contesting these matters. If the TCNIA and TEA prevail, the District estimates that the total loss would approximate \$401,000.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**TAYLOR 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	\$ 397,543.00	\$ 397,543.00	\$ 49,540.32	\$ (348,002.68)
Federal Through State and Local	8,842.00	106,431.00	147,465.21	41,034.21
State	14,849,326.00	14,505,712.00	14,460,898.21	(44,813.79)
Local:				
Property Taxes	7,490,927.00	7,384,784.00	7,491,158.19	106,374.19
Miscellaneous	531,407.00	707,946.00	663,043.25	(44,902.75)
Total Revenues	23,278,045.00	23,102,416.00	22,812,105.18	(290,310.82)
Expenditures				
Current - Education:				
Instruction	12,078,280.00	12,021,989.59	12,330,305.55	(308,315.96)
Pupil Personnel Services	1,109,311.00	1,109,311.00	1,135,640.82	(26,329.82)
Instructional Media Services	298,627.00	298,627.00	263,460.11	35,166.89
Instruction and Curriculum Development Services	748,417.00	689,515.00	608,424.35	81,090.65
Instructional Staff Training Services	58,216.00	58,216.00	30,140.75	28,075.25
Instruction Related Technology	86,002.00	83,015.00	87,641.22	(4,626.22)
Board of Education	199,770.00	223,770.00	260,763.99	(36,993.99)
General Administration	243,498.00	251,998.00	248,071.61	3,926.39
School Administration	1,577,288.00	1,529,597.00	1,491,524.87	38,072.13
Facilities Acquisition and Construction	33,942.00	33,942.00		33,942.00
Fiscal Services	159,502.00	329,502.00	352,968.40	(23,466.40)
Food Services			3,196.45	(3,196.45)
Central Services	328,675.00	328,675.00	321,223.36	7,451.64
Pupil Transportation Services	1,660,515.00	1,418,642.00	1,531,833.60	(113,191.60)
Operation of Plant	3,161,712.00	2,744,630.00	2,645,665.52	98,964.48
Maintenance of Plant	463,050.00	459,718.55	495,388.94	(35,670.39)
Administrative Technology Services	162,784.00	193,784.00	200,176.76	(6,392.76)
Community Services	50,459.00	51,459.00	62,492.13	(11,033.13)
Fixed Capital Outlay:				
Other Capital Outlay		63,608.86	63,608.86	
Debt Service:				
Interest and Fiscal Charges		14,000.00	27,290.61	(13,290.61)
Total Expenditures	22,420,048.00	21,904,000.00	22,159,817.90	(255,817.90)
Excess of Revenues Over Expenditures	857,997.00	1,198,416.00	652,287.28	(546,128.72)
Other Financing Sources (Uses)				
Transfers In	1,008,002.00	1,006,419.00	846,818.89	(159,600.11)
Transfers Out			(78,649.29)	(78,649.29)
Total Other Financing Sources (Uses)	1,008,002.00	1,006,419.00	768,169.60	(238,249.40)
Net Change in Fund Balances	1,865,999.00	2,204,835.00	1,420,456.88	(784,378.12)
Fund Balances, Beginning	(1,856,809.00)	(1,856,809.00)	(1,136,989.86)	719,819.14
Fund Balances, Ending	\$ 9,190.00	\$ 348,026.00	\$ 283,467.02	\$ (64,558.98)

Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 1,424,510.00	\$ 1,424,510.00	\$ 1,417,892.36	\$ (6,617.64)
2,131,184.00	2,131,184.00	3,359,557.88	1,228,373.88
		1,385.82	1,385.82
3,555,694.00	3,555,694.00	4,778,836.06	1,223,142.06
2,265,169.30	2,171,858.28	2,722,619.29	(550,761.01)
418,790.19	418,790.19	403,080.80	15,709.39
198,236.40	198,236.40	302,123.54	(103,887.14)
94,107.38	94,107.38	368,173.10	(274,065.72)
7,315.96	7,315.96	58,326.80	(51,010.84)
		426.00	(426.00)
127,208.77	127,208.77	123,493.88	3,714.89
212,622.00	212,622.00	136,987.65	75,634.35
6,428.00	6,428.00	45,293.42	(38,865.42)
9,924.00	9,924.00	1,777.77	8,146.23
		15,771.25	(15,771.25)
141,279.00	141,279.00	91,271.55	50,007.45
71,332.00	71,332.00	39,191.38	32,140.62
3,281.00	3,281.00	1,336.65	(1,336.65)
		375,651.96	(372,370.96)
	93,311.02	93,311.02	
3,555,694.00	3,555,694.00	4,778,836.06	(1,223,142.06)
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

TAYLOR 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	\$ 3,248,975	\$ 3,248,975	0.00%	\$ 11,110,240	29.24%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 271,087.07	\$
National School Lunch Program	10.555	300	714,383.68	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	109,801.05	
Total United States Department of Agriculture			1,095,271.80	
United States Department of Education:				
Direct:				
Federal Pell Grant Program	84.063	N/A	373,251.17	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	677,814.66	
Special Education - Preschool Grants	84.173	267	29,007.83	
Leon County District School Board:				
Special Education - Grants to States	84.027	None	82.44	
Special Education - Preschool Grants	84.173	None	21,734.62	
Total Special Education Cluster			728,639.55	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	154,712.48	
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	877,473.58	
Career and Technical Education - Basic Grants to States	84.048	151, 161	151,761.09	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	08-202-VH308	51,025.21	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	9,893.94	
Even Start - State Educational Agencies	84.213	219	189,775.77	
Twenty-First Century Community Learning Centers	84.287	244	249,709.07	243,625.91
State Grants for Innovative Programs	84.298	113	3,059.10	
Education Technology State Grants	84.318	121, 122	574,638.11	90,000.00
Reading First State Grants	84.357	211	107,932.78	
Rural Education	84.358	110	72,133.53	
Improving Teacher Quality State Grants	84.367	224	191,342.40	
Total Indirect			3,362,096.61	333,625.91
Total United States Department of Education			3,735,347.78	333,625.91
United States Department of Health and Human Services:				
Direct:				
Head Start	93.600 (3)	N/A	1,044,641.19	
Indirect:				
Early Learning Coalition of the Big Bend Region, Inc.:				
Temporary Assistance for Needy Families	93.558	None	15,921.03	
Child Care and Development Block Grant	93.575	None	16,588.66	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	13,816.15	
Social Services Block Grant	93.667	None	37.09	
Total Indirect			46,362.93	
Total United States Department of Health and Human Services			1,091,004.12	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	49,540.32	
Total Expenditures of Federal Awards			\$ 5,971,164.02	\$ 333,625.91

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

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

(3) Head Start. Expenditures include \$601,491.69 for grant number/program year 04CH0506/15 and \$443,149.50 for grant number/program year 04CH0506/16.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Taylor County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Taylor County District School Board's financial statements. The financial statements of the school internal funds and the Taylor County Education Foundation, Inc., 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 through 8, 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 Nos. 1 through 3 to be material weaknesses.

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 26, 2010



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT ON 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 Taylor 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 Nos. 1, 4, 6, and 7 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Cash Management, Reporting, and Matching, Level of Effort, and Earmarking that are applicable to the Head Start Program and Matching, Level of Effort, and Earmarking applicable to the Title I Program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed some instances of noncompliance with these 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, 3, 5, 8, and 9.

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 others that we consider to be material weaknesses.

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 8 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 Nos. 1, 4, 6, and 7 to be material weaknesses.

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 26, 2010

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be a 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) and Head Start (CFDA No. 93.600) programs, which were qualified

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

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Education Technology State Grants (CFDA No. 84.318); and Head Start (CFDA No. 93.600)

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

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

Finding No. 1: 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 designed 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.

During the 2008-09 fiscal year, the District's General Fund unreserved fund balance increased from a deficit to a positive balance or an increase of \$1,591,496.44; however, the unreserved fund balance still represents only 0.82 percent of General Fund revenues. A summary of the unreserved fund balance for the District's General Fund for the past three fiscal years is shown below:

Fiscal Year Ended June 30	Total Fund Balance	Unreserved Fund Balance	Percent of General Fund Revenues
2007	\$ (865,978.59)	\$ (1,033,808.88)	(4.30)
2008	(1,136,989.86)	(1,405,151.22)	(5.67)
2009	283,467.02	186,345.22	0.82

In our report No. 2009-171, dated March 13, 2009, we noted a significant decline in the unreserved fund balance, and recommended that the Board and Superintendent take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund. Because of the deficit fund balance, the District requested assistance from the Florida Association of District School Superintendents (FADSS) in developing a plan to improve the District's financial condition. FADSS issued a report, dated March 2008, containing a number of recommendations for cost reductions, including eliminating 99 staff positions, closing one school and one learning center for dropout prevention, eliminating bus routes, implementing energy cost savings measures, and eliminating overtime payments. In addition, the FADSS report recommended that the District use the information in the report to develop an economic recovery implementation plan with steps and timelines that will lead to economic recovery. FADSS further

indicated that if all recommendations were accepted and carried out, the District would reach a state of economic soundness with an unreserved fund balance of approximately 3 percent by the end of the 2008-09 fiscal year. Subsequently, the Board, on June 3, 2008, approved and began to implement its economic recovery plan, which included the elimination of approximately 50 staff positions and reductions in the work time for 50 other positions. Other measures approved and implemented by the Board included consolidation of bus routes; payment of certain operating costs, as allowable, from restricted revenue sources; and increases in various fees.

Despite these measures, on March 18, 2009, the District submitted a letter notifying the Commissioner of Education that the unreserved fund balance in the General Fund was projected to fall below 2 percent of projected General Fund revenues and the Board approved a financial recovery plan on April 21, 2009. The plan included a pay reduction of 5 percent for both instructional and noninstructional employees for work performed from February 2009 through June 2009. However, after this pay reduction was implemented, the District subsequently was required to pay back the 5 percent reduction on August 14, 2009, as part of a settlement with the District's instructional and noninstructional unions. The District recorded a liability for the entire amount of the payback on its 2008-09 fiscal year financial statements. In addition to this financial recovery plan, the District further implemented measures as presented in its March 23, 2009, Report for the Joint Legislative Auditing Committee, and as recommended by FADSS in its March 2008 report. For the 2009-10 fiscal year, the District continued to eliminate certain instructional, noninstructional, and administrative positions and again decreased bus routes. Further, the District began to transfer the cost of annual contract positions from the General Fund to be paid with ARRA funds, and closed the Technical Learning Center to reduce operating costs.

Although the unreserved fund balance in the District's General Fund has increased from a deficit \$1,405,151.22 at June 30, 2008, to a positive balance of \$186,345.22 at June 30, 2009, the District may be required to reduce its General Fund unreserved fund balance to repay certain questioned costs, totaling \$1,939,422.27. Such amounts include Federal questioned costs to repay combined net questioned costs of \$263,257.91, noted in Federal Awards Finding Nos. 3, 6, and 8 in our audit report No. 2007-161; unresolved questioned costs of \$49,862.75 noted in Federal Awards Finding No. 5 in our report No. 2008-151; unresolved questioned costs of \$1,012,433.23 noted in Federal Awards Finding Nos. 1 and 2 in our report No. 2009-171; questioned costs totaling \$80,795.40 noted in Financial Statement Finding Nos. 6 and 7; and questioned costs totaling \$533,072.98 noted in Federal Awards Finding Nos. 3 through 8.

The Board approved the District's 2009-10 fiscal year operating budget, which projects a total fund balance of \$734,186.52 in the General Fund at June 30, 2010.

Recommendation: The School Board and the Superintendent should continue to closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

Finding No. 2: Budgetary Controls and Financial Monitoring

The process for adopting and amending the budget affords a governmental entity with a mechanism to plan a level of expenditures to meet its obligations while remaining within available financial resources. If the budget is not properly monitored and amended to meet changing financial circumstances, there is an increased risk that an entity's expenditures will exceed available resources. Section 1011.05, Florida Statutes, provides that the official budget shall not be altered, amended, or exceeded except as authorized. Further, Section 1011.06, Florida Statutes, provides that expenditures shall be limited to the amount budgeted under the classification of accounts provided for each fund and

to the total amount of the budget after the same have been amended as prescribed by law and rules of the State Board of Education.

The District's budget process provided for the original budget to be prepared and approved in accordance with applicable laws and rules; however, our review disclosed that improvements were needed in budgetary controls and compliance. District records indicated that, for the General Fund, the Board approved only five budget amendments prior to June 30, 2009, and the Board approved no other amendments for any other funds before or after that date. Further, at June 30, 2009, the District had overexpenditures, totaling approximately \$661,000, in 12 functional expenditure categories in the General Fund, totaling approximately \$1,409,000, in 9 functional expenditure categories in the Special Revenue – Other Fund, and totaling approximately \$331,000 in 1 functional expenditure category in the Capital Projects – Local Capital Improvement Fund. A similar finding was noted in our report No. 2009-171.

This deficiency in the District's budgetary procedures has not been conducive to effective management control over the District's resources and may have contributed to the current financial condition of the General Fund, as noted in Financial Statement Finding No. 1. In addition, the District lacked proper presentation of its budgetary schedules in its annual financial report, as discussed in Financial Statement Finding No. 4.

Recommendation: The District should enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by State law and rules, which may help the District in monitoring its resources and improving the financial condition of the General Fund.

Finding No. 3: Bank Account Reconciliations

Effective internal control procedures require that reconciliations of bank account balances with the District's general ledger balances be prepared in a timely manner to provide assurance that the District's cash collection and disbursement records are in agreement with bank records. The District maintained 13 bank accounts during the audit period, and a manual record of transactions, referred to as the cash book, which District staff used to record cash transactions and monitor cash needs. Transactions entered in the cash book were periodically entered in the general ledger.

Our review disclosed that, while the District reconciled the June 2009 bank account balances to the cash book, the book was not maintained by reporting fund and was not reconciled monthly to the balances recorded on the District's general ledger. Further, the cash balance at June 30, 2009, in the cash book was approximately \$212,000 more than the cash balance per the general ledger. Through the application of extended audit procedures, we were able to identify the causes of approximately \$180,000 of the difference, including the incorrect identification and recording of payroll deductions and withholding liabilities, and an overstatement of cash in the internal service fund as discussed in Financial Statement Finding No. 4. However, as of January 2010, the District had not been able to identify the causes for the remaining difference of approximately \$32,000 and, due to the volume of transactions, it was not practicable for us to do so on postaudit. Similar findings were noted in previous audit reports, most recently in our report No. 2009-171.

Because cash book transactions were not properly entered into the general ledger and accounts properly reconciled, financial information obtained from the general ledger throughout the year was incomplete and may have impaired the ability of the Board and District staff relying on this financial information to effectively monitor the District's financial position (see Financial Statement Finding No. 1). Timely posted entries into the general ledger and prompt reconciliations of the bank account balances to general ledger accounts would provide for timely detection and

correction of unrecorded or improperly recorded transactions and would ensure accuracy of the financial records for monitoring District operations throughout the year.

Recommendation: The District should enhance its procedures to timely enter transactions into its general ledger, promptly reconcile bank balances to general ledger accounts, and maintain records by reporting fund.

SIGNIFICANT DEFICIENCIES

Finding No. 4: Financial Reporting

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is by preparing its annual financial report. As such, District personnel should ensure that the report is accurate so that users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed several reporting errors and omissions. For example:

- The District places cash balances from various funds with the State Board of Administration (SBA) for investment. In an effort to record SBA investment activities, the District mistakenly reported investment losses related to the Capital Projects – Local Capital Improvement Fund in the General Fund. As a result, the District understated investments and local revenues, totaling approximately \$53,200 each, in the General Fund and overstated these accounts in the Capital Project – Local Capital Improvement Fund. Properly reporting such transactions may help financial statement users understand the performance of the District's investments by fund.
- The District accounts for its group health and hospitalization self-insurance coverage in an internal service fund; however, District personnel made several errors in recording payroll deductions, accounts payable, and estimated claims liability balances at June 30, 2009. In addition, District personnel did not reconcile the cash balance to the general ledger, as noted in Financial Statement Finding No. 3. The net effect of these errors resulted in an understatement of due from other funds, totaling approximately \$183,800, and an overstatement of purchased services and cash of approximately \$91,600, and \$92,200, respectively, in the fund. Further discussions related to the cash bank account reconciliation process are in Financial Statement Finding No. 3. When the self-insurance program is not accurately presented, the financial condition of the fund may not be properly assessed.
- The United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA). However, we noted several instances in which the District's SEFA overstated expenditures for certain Federal programs. For example, District personnel reported expenditures for the Child Care and Development Block Grant program totaling \$403,019.55, while actual expenditures for the program totaled only \$16,588.66, and the District reported expenditures for the Twenty-First Century program totaling \$316,197.50 while actual expenditures for the program totaled only \$249,709.07. Accurate reporting of Federal programs and related expenditures on the SEFA is necessary to properly reflect the District's use of Federal resources.
- District personnel failed to properly report certain required supplementary information, such as the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual for the General Fund and Special Revenue – Other (SRO) Fund (budgetary schedules). Without proper presentation of the budgetary schedules, financial statement users may not have information to make informed decisions regarding the original and final budget in comparison to the actual activities of these major funds. While District personnel prepared no budget schedule for the SRO Fund, the Director of Finance prepared a schedule for the General

Fund, subsequent to June 30, 2009, eliminating overexpenditures in all of the functional categories noted above. However, the schedule was not presented to the Board for approval.

Based on responses to our inquiries, the above reporting errors and omissions mainly occurred because of relatively new District personnel who were unaccustomed to the financial reporting process. We were able to extend our audit procedures to determine the adjustments necessary to properly report the account balances, transactions, and SEFA information, and the District accepted these adjustments. In addition, District personnel approved our request to present the final budget amounts on the budgetary schedules based on the Board-approved original budget, and subsequent Board-approved amendments thereto. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate control procedures over financial reporting. A similar finding was noted in our report No. 2009-171.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure the accuracy and completeness of its annual financial report.

Finding No. 5: Personnel and Payroll Administration

The Director of Finance, the Payroll Technician, and Payroll Clerk had the ability to update files within the payroll system to add employment contracts to established employees, make changes to employee rates of pay, and enter termination information, and no one independently verified the validity of payroll changes. Appropriate internal control practices dictate that these types of updates should be performed by individuals independent of the payroll and finance functions, or adequate compensating controls, such as independent verification of payroll changes, should be performed. While our audit tests did not disclose any errors or fraud involving payroll transactions, under these circumstances, there is an increased risk that improper payroll payments could occur and not be timely detected. In response to our inquiries, District personnel indicated that they were unaware that the deficiencies existed. Further, District personnel indicated that update access would be removed for the Director of Finance and, as a compensating control, edit listings containing new employee additions and payroll changes will be periodically compared to source documents by the Director of Personnel.

Recommendation: The District should establish procedures to separate the duties associated with payroll and personnel responsibilities, or ensure that payroll update reports are reviewed and approved by individuals independent of the payroll process.

Finding No. 6: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, allows capital outlay millage levy proceeds to be used to fund, among other things, new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; school bus purchases; purchases of new and replacement equipment; property and casualty insurance premium costs; and, effective July 1, 2008, the purchase, lease-purchase, or lease of enterprise resource software applications that are classified as capital assets in accordance with definitions of the Governmental Accounting Standards Board, have a useful life of at least 5 years, and are used to support districtwide administration or state-mandated reporting requirements.

According to inquiries with Florida Department of Education Office of Educational Facilities (FDOE-OEF) personnel, certain capital outlay millage charges for computer maintenance would be allowable, such as centralized computer repair departments to replace computer hard drives or installing more memory, or maintenance of

enterprise resource software (ERS) applications. However, FDOE-OEF personnel further indicated that other computer maintenance charges funded by millage proceeds may not be allowable, such as maintenance on non-ERS software, data base maintenance, technical assistance, or trouble-shooting for network connectivity, e-mail, or other software issues.

To determine whether millage levy proceeds were spent on allowable uses, we tested expenditures of such proceeds, totaling \$865,066.98, and noted that enhancements in controls over such expenditures for computer maintenance services could be made. We noted that the District transferred capital outlay millage proceeds from the Capital Projects - Local Capital Improvement Fund to the General Fund for a portion of the salaries and benefits of two computer technicians, totaling \$73,029, for the maintenance of computer hardware. We requested District records to evidence the propriety of these charges and District personnel provided copies of all the work orders supporting the two technicians' activities during the 2008-09 fiscal year. Our review disclosed that some of these activities were allowable uses of millage proceeds, such as services for computer maintenance; however, charges, totaling approximately \$57,000, were for technical assistance or trouble-shooting activities that were not eligible for payment from millage levy proceeds, and represent questioned costs. We also noted questioned costs regarding capital outlay millage proceeds in our report No. 2009-171. Section 1011.71(5), Florida Statutes, provides that a district that violated these expenditure restrictions shall have an equal dollar reduction in funds appropriated to the district in the fiscal year following the audit citation.

Recommendation: The District should document the allowability of the questioned costs, totaling approximately \$57,000, to the Florida Department of Education or the costs should be restored to the Capital Projects – Local Capital Improvement Fund.

Finding No. 7: Public Education Capital Outlay Expenditures

The State allocates Public Education Capital Outlay (PECO) moneys to the District on an annual basis. The District's annual PECO allocation consists of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use. Section 1013.64, Florida Statutes provides that PECO funds may be used for remodeling, renovation, maintenance, repair, or site improvement projects to expand or upgrade current facilities, and local funds should be used for landscaping and the enhancement of athletic facilities. Pursuant to the Section 1013.01, Florida Statutes, definition of "maintenance and repair," PECO funds may not be used for maintenance or repair related to custodial or groundskeeping functions.

Our test of expenditures of PECO moneys, totaling \$176,563.40, disclosed the following expenditures that were not authorized uses of PECO moneys:

Description	Amount
Janitorial supplies	\$ 9,635.86
Groundskeeping supplies	11,156.70
Equipment for the Taylor County High School football field	1,320.00
Total	<u>\$ 22,112.56</u>

The expenditures described above, totaling \$22,112.56, represent questioned costs to the Capital Projects - PECO Fund. Based on our review of District records and responses to our inquiries, the above noncompliance occurred because District personnel did not review documentation supporting these expenditures before moving the

expenditures from the General Fund to the Capital Projects – PECO Fund. Absent specific cited authority for these expenditures of PECO moneys, these moneys should be restored to the Capital Projects - PECO Fund.

As noted in our report No. 2007-161, the District expended \$1,682.84 from its PECO funds to purchase scoreboard equipment for the Taylor County High School gym. This expenditure was not an allowable use of PECO funds and represented questioned costs; however the District has yet to restore the questioned costs to the Capital Projects – PECO Fund.

Recommendation: The District should document the allowability of the questioned costs, totaling \$22,112.56, to the Florida Department of Education or the costs should be restored to the Capital Projects – PECO Fund. Additionally, the District should restore the questioned costs, totaling \$1,682.84, to the Capital Projects – PECO Fund.

Finding No. 8: Construction Administration

Section 287.055, Florida Statutes, generally requires that the District publicly announce and enter into a formal competitive selection and negotiation process for architectural services on each occasion when construction costs are to exceed \$250,000, or when a planning or studying activity fee is estimated to exceed \$25,000. Further, Section 4.1(1), *State Requirements for Educational Facilities (SREF) – 2007*, prescribes uniform requirements for the prequalification of contractors and the proposed policy, procedures, and rules relating to the prequalification process. In addition, Board Policy 10.18 provides requirements for the District to prequalify contractors.

Our review of the contracting processes for the Taylor County Middle School and Steinhatchee K-8 renovation project, with projected costs totaling approximately \$720,000, disclosed the following:

- District personnel indicated that the District did not provide for public notice and competitive selection of the architect for the Taylor County Middle School and Steinhatchee K-8 renovation project because the District had a long-standing working relationship with the architectural firm. Absent utilization of the required competitive selection process, the District's assurances related to the fair, equitable, and economical procurement of architectural services are limited.
- The District did not hold a public hearing regarding its intent to prequalify contractors, contrary to *SREF* and Board policy. Based on responses to our inquiries, this occurred mainly because the District relied upon the architect's expertise to select contractors. Properly prequalifying contractors may provide the District with additional assurance that contractors are qualified for the project and have historically complied with plans, specifications, time schedules, and warranties, and have properly compensated subcontractors. When construction contractors are not properly prequalified, the District may not give proper attention and consideration to the most qualified and experienced contractor for the project.

Recommendation: The District should enhance its procedures to comply with the formal competitive selection process when obtaining architectural services. In addition, the District should hold the required public hearing regarding its intent to prequalify contractors, and adopt policies, procedures, and rules as necessary to ensure that all potential contractors are prequalified prior to awarding bids.

ADDITIONAL MATTERS

Finding No. 9: Related Party Transactions

To ensure public confidence over procurement practices, it is essential that any and all appearances of a conflict of interest be avoided to retain the public's trust. Board Policy 9.70(19) prohibits contracting for goods or services with any business organization in which a school board employee, their spouse, or child, has a material interest.

Our review disclosed the following purchases made during the 2008-09 fiscal year contrary to Board Policy:

- The District purchased services for installation of audio visual equipment, totaling \$41,250, for Taylor County High School from the wife of a teacher at Taylor Technical Institute, and the teacher performed some of the installation services.
- The District purchased services for lawn maintenance totaling \$4,200, for Taylor County High School and Dorsett Stadium from the wife of a teacher at Taylor County High School, and the teacher performed the lawn maintenance services.
- The District purchased services for painting and other minor maintenance projects, totaling \$15,866, for various locations throughout the District from a part-time maintenance employee of the District.

Further, Section 112.313(3), Florida Statutes, prohibits employees acting in a private capacity, and in some cases the employee's spouse or child, from selling goods or services to the employee's agency. Section 112.313(7), Florida Statutes, prohibits an employee from holding any contractual relationship with any business entity that is doing business with the agency for which the employee works. Section 112.313(12), Florida Statutes, provides that certain transactions are exempt from the requirements of Sections 112.313(3) and 112.313(7), Florida Statutes; however, although requested, District personnel did not provide evidence that the questioned purchases were exempt.

Recommendation: The District should implement procedures to ensure compliance with Board Policy 9.70(19), when acquiring services. Additionally, the District should consult with the Commission on Ethics to ensure there is no violation of either Sections 112.313(3) or 112.313(7), Florida Statutes, in these instances.

Finding No. 10: Collection of Social Security Numbers

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

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

During the 2008-09 fiscal year, the District collected SSNs from employees, prospective employees, vendors, and on certain student forms for recordkeeping and tax-related purposes. The District implemented procedures to notify employees, prospective employees, and vendors with written statements indicating the purpose for collecting the SSNs; however, because of oversights, the District did not provide written statements for certain student forms, such as enrollment applications completed by parents or legal guardians. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should enhance its procedures to ensure compliance with Section 119.071(5), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Finding No. 11: 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 Appropriation 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. In addition, FDOE procedures for reporting instructional hours state that institutions must develop a procedure for withdrawing students for nonattendance and the standard for setting the withdrawal date shall be six consecutive absences from a class schedule.

As similarly noted in our report No. 2009-171, the District needs to enhance its controls over enrollment reporting. The District reported 95,822 adult general education hours to FDOE for the 2008-09 fiscal year. Our review of the hours reported for 20 students enrolled in 15 adult general education classes disclosed exceptions in enrollment reporting, as follows:

- The District mistakenly overreported 895 enrollment hours for 11 students that had six or more consecutive absences.
- Due to data entry errors, such as posting the incorrect number of class days on the master class schedule, the District underreported 1,632 enrollment hours for 8 students.

Since future 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 enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 12: Information Technology – Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. As similarly noted in our report No. 2009-171, the District lacked written policies and procedures for the following IT functions:

- Administering vendor-supplied identification codes (IDs), user IDs, administrative passwords, guest accounts, and security devices (such as firewalls and routers).
- Defining network administration responsibilities.
- Prohibiting administrator rights on the workstations of end users.
- Defining access privileges and responsibilities to end-user support staff.
- Resetting user passwords, including positive identification of the user.
- Removing confidential information from consultant and vendor equipment.
- Defining termination procedures, including timely notification of terminations and reassignments and revoking the access privileges of former or transferred employees, consultants, and vendors.

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

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

Finding No. 13: Information Technology – Disaster Recovery Plan

The Board entered into a reciprocal disaster recovery agreement with Panhandle Area Educational Consortium (PAEC) member districts whereby member districts agreed to serve as alternative processing sites for each other in the event of a disaster that interrupts critical District IT operations. Additionally, the District had established a Disaster Recovery Plan (Plan) and assigned responsibilities for carrying out disaster recovery activities to particular individuals. However, the District had not tested the Plan, it was not comprehensive, and it did not include the following key recovery control elements:

- Prioritization of critical operations and data;
- Provision for backup personnel; and
- Procedures to follow when the Northwest Regional Data Center is inoperable.

Disaster recovery plans are an important element of effective internal control over IT operations. When a disaster recovery plan does not include key recovery control elements and has not been tested for feasibility or weaknesses, there is an increased risk that restoration of IT operations may be delayed in the event of a disaster.

Recommendation: The District should enhance its Disaster Recovery Plan to include a prioritized list of critical operations and data; to include a list of backup personnel so that the Plan is not dependent upon any one individual; and procedures to follow in the event of service interruptions with the Northwest Regional Data Center. Additionally, the District should test the plan's effectiveness annually.

Finding No. 14: 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. Our audit disclosed a security control in the area of user authentication that needed improvement. We are not disclosing specific details of the issue 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 issue. 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. A similar finding was noted in our report No. 2009-171.

Recommendation: The District should improve security controls in the area of user authentication 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 Health and Human Services

Award Numbers: 04CH0506/15 and 04CH0506/16

Program: Head Start (CFDA No. 93.600)

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: Not Applicable

Cash Management and Reporting. District procedures were not adequate to ensure that the status of Federal Head Start cash was accurately reported to the grantor and in agreement with District records. The District received funding directly from the United States Department of Health and Human Services – Payment Management System for its Head Start program. The District is required to file quarterly a Federal Cash Transaction Report, Form PSC 272, which reports cash on hand at the end of each quarter. We requested the quarterly Federal Cash Transaction Reports, Form PSC 272, filed for 2008-09 fiscal year; however, as of January 2010, these reports had not been provided for our review. In response to our inquiries, the Director of Finance indicated that the required Federal Cash Transaction Reports, Form PSC 272, were not filed timely during the 2008-09 fiscal year and, as a result, the District was prevented from obtaining cash draws during the 2008-09 fiscal year through the Payment Management System to cover program costs.

After the District corresponded with United States Department of Health and Human Services staff during a site visit at the District, the District obtained a cash draw, totaling \$660,946.76, on November 16, 2009. However, the District did not specifically identify and track the program cash balance in the general ledger and other records did not evidence the basis for the District's reported program cash balance. As such, the District had not documented the accuracy of the Head Start cash balance at June 30, 2009. Consequently, we estimated the cash balance that should have been reported using beginning cash, plus cash draws, less expenditures, to estimate a deficit cash balance at June 30, 2009, of \$599,425.91. The cash deficit necessitated the use of other non-Federal moneys to temporarily pay Head Start costs during the 2008-09 fiscal year. Similar deficiencies are discussed in Federal Awards Finding No. 2 relating to moneys advanced through the Florida Department of Education cash advance system, and in several previous reports, most recently in our report No. 2009-171.

Recommendation: The District should implement procedures to ensure that Federal Cash Transaction Report, Form PSC 272, is timely and accurately filed, reconciled to the District's records, and retained, with supporting documentation of reported amounts. Separately identifying and tracking the Head Start cash balance in its general ledger may assist the District in this endeavor.

District Contact Person: Vicki McManus, Director of 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); Special Education Cluster (CFDA Nos. 84.027 and 84.173); and Education Technology State Grants (CFDA No. 84.318)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** Not Applicable

Cash Management. Our review of Federal cash advances received through the Florida Department of Education (FDOE) during the 2008-09 fiscal year to fund various Federal programs included a comparison of the monthly beginning cash balance, plus cash draws for the month, minus disbursements for that month. While District personnel monitored Federal moneys expended, and occasionally made Federal cash draws, the District's Federal cash management procedures were not effective, resulting in monthly Federal expenditures exceeding cash draws throughout the fiscal year. The results of our review disclosed ending monthly Federal cash deficits for nine months ranging from \$104,091.50 to \$1,215,498.47. These cash deficits necessitated the use of other non-Federal moneys to temporarily pay Federal costs and, as such, reduced the availability of General Fund moneys for operating purposes. We noted a similar situation relating to Head Start cash management in Federal Awards Finding No. 1.

Recommendation: The District should enhance its procedures to more accurately anticipate disbursements of Federal moneys so that Federal cash balances are kept at appropriate levels as needed to provide sufficient resources for immediate needs.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 3:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Special Education Cluster (CFDA Nos. 84.027 and 84.173); Adult Education – State Grant Program (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Career and Technical Education – Basic Grants to States (CFDA No. 84.048); Even Start – State Educational Agencies (CFDA No. 84.213); Twenty-First Century Community Learning Centers (CFDA No. 84.287); State Grants for Innovative Programs (CFDA No. 84.298); Education Technology State Grants (CFDA No. 84.318); Reading First State Grants (CFDA No. 84.357); Rural Education (CFDA No. 84.358); and Improving Teacher Quality State Grants (CFDA No. 84.367)**Finding Type:** Noncompliance (All CFDA Nos. Listed Under Program) and Significant Deficiency (CFDA Nos. 84.010, 84.287, and 84.357)**Questioned Costs:** \$21,198.19 (CFDA No. 84.010); \$16,686.75 (CFDA No. 84.287); and \$16,090.08 (CFDA No. 84.357)

Reporting. Expenditures of grant funds are reported through FDOE's On-Line Disbursement Reporting Application in accordance with reporting and administrative requirements set forth in the FDOE publication titled, *Project Application and Amendment Procedures for Federal and State Programs*. Section C of this publication provides instructions for requesting advances of Federal cash, reporting expenditures of grant funds, and preparing and submitting the Distributive Aid Cash Advance Reconciliation, a report used to reconcile the Federal cash balance shown on FDOE's Distributive Aid Cash Advance Status (DACAS) Report to the District's accounting records.

Our review of District records disclosed that expenditures, totaling approximately \$334,800, were recorded in the District's general ledger for certain Federally-funded FDOE grants during the 2008-09 fiscal year, but were not reported to FDOE through the On-Line Disbursement Reporting Application. Further, as of June 30, 2009, there

were generally unexpended amounts remaining in the budgets of these grants. However, because the District did not properly report these expenditures, FDOE's records collectively are approximately \$334,800 less than expenditures per District records, and the availability of the unexpended budgeted funds of these grants for District use, as of January 2010, was uncertain. In addition, we noted that grant expenditures reported to FDOE for the Reading First, Twenty-First Century, and Title I programs exceeded the amounts expended per District records by \$16,090.08, \$16,686.75, and \$21,198.19, respectively. Without timely correction, FDOE may overreimburse the District by \$53,975.02 for these programs. Based on responses to our inquiries, these errors mainly occurred because new District personnel were not accustomed to the FDOE financial reporting system.

We further noted that, although the District timely prepared and filed the Distributive Aid Cash Advance Reconciliation with FDOE, the amount of Federal cash on-hand reported by the District at June 30, 2009, was approximately \$511,000 more than Federal cash on-hand according to the District's accounting records. While we were able to materially reconcile District records with the FDOE Federal cash advance balance shown on the DACAS Report, the failure to periodically reconcile FDOE cash advance balances and program expenditures to amounts per District records limits the District's ability to timely detect and correct errors in its accounting records or Federal financial reports. Similar deficiencies were noted in previous reports, most recently in our report No. 2009-171.

Recommendation: The District should develop controls to improve its monitoring and reporting of Federal cash balances and Federal expenditures to ensure that amounts reported to FDOE agree with or reconcile to the District's accounting records. Further, the District should contact FDOE regarding necessary action to resolve the questioned costs, totaling \$53,975.02.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 4:
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: \$85,109.40

Matching, Level of Effort, Earmarking – Supplement Not Supplant. Public law 107-110, United States Code, provides in part, that Title I program funds shall be used to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds. The United States Office of Management and Budget *Circular A-133* provides that it is presumed supplanting has occurred if the local education agency (LEA) has used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year.

Our review of salaries and benefits charged to the Title I program disclosed that the District paid salaries and benefits, totaling \$85,109.40 for two teachers and a teacher's aide from the Title I program funds during the 2008-09 fiscal year; however, during the 2007-08 fiscal year, these salaries were paid from the General Fund. Based on responses to our inquiries, District personnel did not realize that the District used Federal moneys to fund services that were funded with non-Federal moneys in the previous year, or that a presumption of supplanting had occurred. As such, the salaries and benefits, totaling \$85,109.40, paid from Title I funds represent questioned costs.

Recommendation: The District should document to the grantor (FDOE) the allowability of the questioned costs, totaling \$85,109.40, or restore the costs to the program.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 5:

Federal Agency: United States Department of Health and Human Services

Award Numbers: 04CH0506/15 and 04CH0506/16

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Head Start (CFDA No. 93.600)

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$55,119.68

Allowable Costs/Cost Principles – Compensation of Personnel Services. The United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. In addition, OMB *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of the certification.

The District recorded salary and benefit expenditures for the Head Start and Title I programs, totaling \$894,620.06 and \$673,699.19, respectively. Of these amounts, we tested expenditures, totaling \$204,414.78 and \$98,518.70, respectively, from these programs to determine whether the District maintained the required records to support these personnel costs and whether the costs complied with the grant terms. Our tests disclosed that enhancements were needed in District procedures for maintaining documentation to support these costs, as follows:

- The District did not obtain the required semiannual certifications for six employees working solely on the Head Start program from July 2008 to December 2008 to support salaries and benefits expenditures totaling \$204,414.78.
- The Title I program was charged \$21,331.49 in salaries and benefits for a reading specialist who devoted 37 percent of her work time to the program from July 2008 to January 2009; however, District records did not evidence monthly personnel activity reports or equivalent documentation to support these costs.

Absent the required semiannual certifications and personnel activity reports, we performed additional procedures, including obtaining confirmations from applicable employees and interviewing supervisory personnel, and determined that the employees devoted the appropriate amount of time on Federal program activities for their respective salary charges. A similar finding was noted in previous reports, most recently in our report No. 2009-171.

In addition, pursuant to Section 1114(a)(1) of the Elementary and Secondary Education Act, Title I funds used in a schoolwide program must be used to upgrade the educational program of the school. This requirement was clarified in guidance provided by the United States Department of Education, dated February 2008, to require the District to use Title I moneys for the specific educational needs of the school identified by the needs assessment and comprehensive plan, and to not use Title I funds for noneducational activities such as building maintenance and repairs, landscaping, and custodial services.

Our review of the Title I program schoolwide program budget allocations and related expenditures indicated that the District inadvertently charged salary and benefit amounts to the Title I schoolwide program for the District technology specialist, who maintained computer equipment at various Title I schools. While the grant application indicated that FDOE preapproved these costs, the associated salary and benefit charges, totaling \$55,119.68, for the technology specialist services represent questioned costs subject to disallowance by the grantor because the services were noneducational in nature.

Recommendation: The District should continue to enhance its procedures to provide for the required semiannual certifications for employees who work solely in a single Federal program and monthly personnel activity reports for employees who work on multiple activities or cost objectives. In addition, the District should document to the grantor (FDOE) the allowability of the questioned costs, totaling \$55,119.68, or restore the costs to the Title I program.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 6:
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: \$72,147.63

Matching, Level of Effort, Earmarking – Targeting Funds for Supplemental Educational Services. For the 2008-09 school year, three District schools were identified as schools in need of improvement (SINI) pursuant to the No Child Left Behind Act of 2001. Title 34, Sections 200.44 and 200.45, Code of Federal Regulations (CFR), requires the District to provide parents of students enrolled in a school identified as in need of improvement with the option to transfer to another public school served by the District. The CFR further requires schools in their second and subsequent years of improvement status to provide supplemental education services (SES) to students enrolled in those schools from State-approved providers. Title 34, Section 200.45, CFR, also provides that the District must arrange for each eligible student in the school to receive SES from a State-approved provider selected by the student's parents. In addition, Title 34, Section 200.48(a)(2), CFR, provides that, unless a lesser amount is needed, the District must spend an amount equal to 20 percent of its Title I allocation to provide transportation for students exercising a choice option to attend another school or to satisfy all requests for SES. These services represent extra academic assistance offered during off-school hours to eligible students and provides for tutoring, remediation, and academic intervention free of cost.

FDOE is primarily responsible for identifying schools that are required to offer transportation and SES, as well as identifying eligible SES providers, while the District is responsible for securing SES providers from the State-approved provider listing to offer services. In addition, the District was required to earmark \$163,568, or 20 percent of its \$817,840 Title I allocation, for these purposes during the 2008-09 fiscal year. Our review of SES and choice with transportation during the 2008-09 school year disclosed the following areas of noncompliance and control deficiencies:

- Contrary to Federal regulations, the District did not send letters to parents of students enrolled at the Steinhatchee School notifying them of the option to transfer their 6th through 8th grade students to Taylor County Middle School, a school not identified as in need of improvement. While exceptions for choice with transportation may be made for impracticality due to the distance of a choice school, as these two schools are

approximately 40 miles apart; District records did not evidence that the Florida Department of Education or the United States Department of Education granted waivers of this requirement.

- Although the Steinhatchee School was a Title I schoolwide school identified as SINI for the third year during the 2008-09 fiscal year, the District did not send letters to parents of students enrolled in grades 6th through 8th at the School notifying them of the option to receive SES.
- Section 1008.331, Florida Statutes, requires the District to provide SES providers access to school facilities using the same policies applied to other organizations that have access to school sites. Contrary to these provisions, three of the District's contracts with State-approved providers prohibited the providers from using school facilities for SES, although the District maintained a fee schedule for other organizations' use of facilities and routinely approved use of its facilities for these other organizations.

Based on responses to our inquiries, the above deficiencies occurred mainly because of misunderstandings by District personnel responsible for administering the Title I program.

In addition, District expenditure records show that only \$91,420.37 was spent towards meeting the 20 percent earmark for SES and transportation, which is \$72,147.63 less than the \$163,568 that the District was required to earmark. Insofar as the District kept waiting lists of approximately 20 students whose parents requested SES but were not ultimately provided with such services, some parents who requested services did not receive SES for their children. Additionally, based on the notification deficiencies and facilities access restrictions noted above, the District may have further limited the ability of parents to make informed decisions regarding the educational choices available to their children and reduced the demand for SES and transportation. Consequently, the unspent portion of the SES and transportation earmark, totaling \$72,147.63, represents questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that it notifies parents, whose children attend schoolwide schools identified as in need of improvement, of all available SES and transportation options. Additionally, the District should provide SES providers the same access to school sites as provided to other organizations. Further, the District should contact the grantor (FDOE) regarding the remaining earmarked funds from the 2008-09 fiscal year, totaling \$72,147.63, and either expend them in the 2009-10 fiscal year to meet unmet SES need or restore them to the Title I program.

District Contact Person: Wanda Kemp, Director of Instruction

Federal Awards Finding No. 7:
Federal Agency: United States Department of Health and Human Services
Award Number: 04CH0506/15
Program: Head Start (CFDA No. 93.600)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: \$247,426.74

Matching, Level of Effort, Earmarking. Title 45, Section 1301.20, CFR, provides that Federal financial assistance under the Head Start program shall not exceed 80 percent of the costs of the program, unless a greater percentage is approved by the United States Department of Health and Human Services. Based on the provisions of the grant documents for the February 2008 through January 2009 grant award, the District was responsible for providing a 20 percent match, or \$274,918.60, and the Head Start program was responsible for the remaining 80 percent, or \$1,099,674.41. Title 45, Section 92.34, CFR, further states that unless provided by Federal statute, a cost-sharing or matching requirement may not be met by costs borne by another Federal grant.

Our review of the \$295,374.74 in matching costs claimed by the District for the Head Start program disclosed that \$69,191.74 of these costs were comprised of meals provided by the District's school food service program, which is

partially reimbursed by the Child Nutrition Cluster, another Federal program. Based upon responses to our inquiries, District personnel were unaware of the CFR that prohibited the District from using costs of the food service program to meet the Head Start matching requirement. As a result, the total matching costs documented by the District were less than the required matching costs by \$48,735.60. This amount represents approximately 18 percent of the required matching cost and results in questioned costs totaling \$247,426.74 (18 percent of program expenditures, totaling \$1,374,593.01).

Recommendation: The District should document to the grantor (United States Department of Health and Human Services) the allowability of using Child Nutrition Cluster funds as matching costs or restore the questioned costs, totaling \$247,426.74, to the Head Start program.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 8:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$19,294.51

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Equipment Management. FDOE awarded a Twenty-First Century grant to the District for a five-year period ending June 30, 2009. A non-profit organization is responsible, as subrecipient of these program funds from the District, for operating the program, and the District is accountable for monitoring the activities of this subrecipient. During May 2009, FDOE conducted a review of the District's program, which included program implementation for the 2008-09 fiscal year, fiscal management for the 2007-08 fiscal year, and property management since the inception of the program for the District. The monitoring report issued by FDOE in November 2009, cited the following noncompliance areas and control deficiencies:

- The approved project application indicated science activities would be scheduled during the 2008-09 school year and various academic activities would be implemented in Summer 2008. However, District records did not evidence whether the students participated in science and various academic activities during the 2008-09 school year or during the summer. In addition, the summer program was required to be operated at least 4 hours per day for a minimum of 12 hours per week, however, it was determined that the program offered less hours than listed in the approved application.
- District records did not evidence whether expenditures for program costs, totaling \$19,294.51, were necessary and allowable for the program. These costs were incurred for items such as travel, personal textbooks, salaries, bonuses, and other costs. Additionally, District records did not evidence support for in-kind contributions, contrary to the program's requirements. In response to these findings, the District submitted revised financial reports to reflect the nonallowable amounts; however, as of February 1, 2010, the questioned costs had not been restored to the program.
- The physical inventory of property did not include all equipment purchased by the program, and equipment purchased for the program was used for nonprogram purposes.

Based on responses to our inquiries, the above deficiencies mainly occurred because the District did not properly monitor the activities of the nonprofit organization's compliance with the program's requirements. Without proper monitoring, there is an increased risk that the goals of the program may not be attained.

Recommendation: Given that the Twenty-First Century program had terminated as of June 30, 2009, the District should restore questioned costs totaling \$19,294.51 to the program.

District Contact Person: Chris Olson, Coordinator of Research and Evaluation

Federal Awards Finding No. 9:

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); Education Technology State Grants (CFDA No. 84.318); Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)

Finding Type: Noncompliance

Questioned Costs: Not Applicable

Procurement – Contract Administration. Title 34, Section 80.36(i), CFR, requires District contracts involving Federal funds to contain certain provisions, including the following:

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

Our review disclosed that the District entered into nine contracts or purchase orders, each individually in excess of \$10,000, collectively totaling \$341,418.56 that excluded some or all of the above Federally-required language. These contracts included costs, totaling \$248,425.15 funded by the Education Technology program for three vendors; costs, totaling \$59,870.51 funded by the Child Nutrition Cluster program for four vendors; and costs, totaling \$33,122.90 funded by the Title I program for two vendors. Failure to include the required contract provisions could limit the District's actions if disputes arose.

Recommendation: The District should ensure that all future contracts involving Federal funds contain the required provisions.

District Contact Person: Vicki McManus, Director of Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2009-171.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*TAYLOR 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
2007-161 (1) 2008-151 (1) 2009-171 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Cash Management	The District had cash balances in excess of the subsequent month's expenditures. In addition, interest earnings had not been remitted to the Florida Department of Education (FDOE).	Corrected	District remitted interest earnings from fiscal years 2005-06, 2006-07, and 2007-08 to FDOE.
2007-161 (7) 2008-151 (2) 2009-171 (5)	Head Start (CFDA No. 93.600) / Cash Management and Reporting	District procedures were not adequate to ensure that the status of Federal Head Start cash was accurately reported and in agreement with District records.	Not corrected	District will contact grantor and request assistance in accurately reporting the cash balance.
2007-161 (8)	Head Start (CFDA No. 93.600) / Matching, Level of Effort, Earmarking - Development and Administrative Costs	Costs for developing and administering the District's Head Start program, for the grant period February 1, 2005, through January 31, 2006, was \$43,598 in excess of the 15 percent allowable amount.	Not corrected	Final resolution of the questioned costs is pending.
2007-161 (3) 2008-151 (5)	Education Technology State Grants (CFDA No. 84.318), Head Start (CFDA No. 93.600), and Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Procurement - Contract Administration	Enhancements were needed in District procedures to ensure expenditures with Federal moneys are made pursuant to contracts that include the required contractual provisions. Additionally, the District did not obtain and maintain documentation to support time worked by contracted vendors; consequently, payments totaling \$109,134.91 and \$49,862.75 for the 2005-06 and 2006-07 fiscal years, respectively, represent questioned costs subject to disallowance by the grantor.	Not corrected	District will develop procedures to review invoices for compliance with contractual provisions prior to payment. Grantor has not made final determination regarding repayment of questioned costs.
2008-151 (7)	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 \$140,797.07 for the 2006-07 fiscal year, or these moneys should be restored to the Title I program.	Corrected	District restored questioned costs to the program.

TAYLOR 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
2007-161 (6)	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 FDOE the allowability of questioned costs, totaling \$110,525, or these moneys should be restored to the Title I program.	Partially corrected	Grantor has not issued final determination with regard to the questioned costs.
2007-161 (9) 2008-151 (4) 2009-171 (6)	Special Education - Grants to States (CFDA No. 84.027), and Head Start (CFDA No. 93.600) / Allowable Costs/Cost Principles - Compensation of Personnel Services	Enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries and benefits to the Special Education and Head Start programs for employees who worked on single and multiple cost objectives.	Partially corrected	District has corrected for Special Education, and is developing procedures to adequately document time worked on all Federal programs.
2008-151 (9) 2009-171 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Career and Technical Education - Basic Grants to States (CFDA No. 84.048); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Reading First State Grants (CFDA No. 84.357); Rural Education (CFDA No. 84.358); and Improving Teacher Quality State Grants (CFDA No. 84.367) / Reporting	The District needs to improve its monitoring of Federal expenditures to ensure that amounts recorded in the general ledger are appropriately reported to FDOE and that the required cash advance reconciliation is timely completed. Additionally, the District should contact FDOE regarding necessary action to resolve the questioned costs, totaling \$22,940.85, related to the Special Education program.	Not corrected	District is developing procedures to more timely reconcile general ledger expenditures to expenditures reported in the grantor's on-line disbursement system.
2009-171 (1)	Head Start (CFDA No. 93.600) / Matching, Level of Effort, Earmarking - Matching and Contribution and Development and Administrative Costs	The District did not evidence that the in-kind matching contribution requirement was met, and did not file the SF-269 annual financial status report for the period ending January 31, 2008, evidencing the amount and percentage of development and administrative costs incurred or matching expenditures claimed, resulting in questioned costs of \$989,492.38.	Not corrected	In March 2009, the District subsequently filed the SF-269 annual financial status report for the period ending January 31, 2008. Total matching costs were less than the required match by \$86,580.58, and total development and administrative costs documented by the District exceeded 15 percent of the total approved costs of the program by \$38,073.03.
2009-171 (3)	Head Start (CFDA No. 93.600) / Allowable Costs/Cost Principles - Health Service Costs	The District paid \$13,629.87 for health services not related to the Head Start program.	Corrected	Questioned costs were restored to the program.
2009-171 (7)	Special Education - Grants to States (CFDA No. 84.027) / Allowable Costs/Cost Principles	The District did not obtain and maintain documentation to support time worked by a contracted vendor, resulting in questioned costs, totaling \$3,422.	Corrected	Questioned costs were restored to the program.

EXHIBIT A
MANAGEMENT'S RESPONSE



Taylor County School District

**District School Board
of Taylor County, Florida**

318 North Clark Street
Perry, FL 32347

Phone: 850.838.2500
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Superintendent
Paul Dyal

Board Members

Mark Southerland
Residence Area One

Brenda H. Carlson
Residence Area Two

Darrell Whiddon
Residence Area Three

Danny Lundy
Residence Area Four

Kenneth R. Dennis
Residence Area Five

March 22, 2010

David W. Martin
Auditor General
111 W. Madison Street
Tallahassee FL 32399-1450

Dear Mr. Martin:

Enclosed is our response to the preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2009.

Respectfully,

Paul E. Dyal
Superintendent

PED/srm

An Equal Opportunity - Equal Access Employer

Management Response – Taylor County District School Board

Report for FY 2008-09

Finding # 1

During the 2008-09 year, as noted in the audit report, the District did continue to take measures to reduce expenditures, resulting in the significantly improved financial condition noted in the report. The budget for the 2009-10 year reflects a projected 3.5% fund balance, which includes a continued focus on reducing costs and monitoring both expenditures and revenues and making operating adjustments as needed. Monthly updates are now being provided to the Board.

Given the improvement in procedures and financial condition, the FADSS monitoring team now meets with the Finance Director one day per quarter to develop and validate revenue and expenditure projections for the remainder of the year. Both bargaining units filed grievances on failure to award steps effective 7/1/09. Without these step payments, the District would be on track to meet the budget of a 3.5% fund balance. If we are required to pay one step for each unit, we will be above 2% but below 3%. We are monitoring this situation and developing a plan which will return us to a 3% positive fund balance early in the 2010-11 year, if we are required to pay steps.

Finding # 2

We agree that budgetary controls could be improved. During the 2008-09 year, the focus was on managing the overall expenditures, revenues and fund balance, not on preparing budget amendments for offsetting variances. For the 2009-10 year, budget amendments are being prepared for Board approval. Procedures are being implemented to ensure proper year-end budget amendments and budget schedules are prepared and presented to the Board prior to the filing of the Annual Financial report.

Finding # 3

We agree that sufficient bank reconciliation processes were not in place in 2008-09, resulting in an unreconciled general ledger balance. On a monthly basis, we did prepare reconciliations from the bank statements to the cash book, then identified reconciling items between the bank and general ledger. However, not all correcting entries were made to the general ledger, or were not made on a timely basis. Our Gateway consultants are assisting us in the process, utilizing the TERMS bank reconciliation process in conjunction with the on-line Capital City Bank reconciliation.

We have discussed the bank reconciliation process with the Board in November 2009 and will present an update to the Board each month beginning in April 2010. Once we have the final audited financial

statements, we will enter the corrected cash balances in the general ledger and ensure monthly reconciliations are completed for the 2009-10 fiscal year.

Finding # 4

We agree that the Annual Financial Report for 2008-09 was not completely accurate. The District did use the services of an outside accounting firm to assist in year-end procedures and to prepare the Annual Financial Report. However, there was not sufficient time for proper review of the report by District staff. For the 2009-10 year, monthly reviews are occurring which will shift some of the work load from year-end to earlier months. In addition, budget processes have already begun to shift some of the budget workload from the summer to the period April-June. Both of these steps will facilitate the timely preparation of the AFR and allow more time for review before submission to DOE.

Finding # 5

We are aware that the Director of Finance, the Payroll Technician and the Payroll Clerk had the ability to update files within the payroll system to make the changes noted in the report. However, due to the review of the payroll by the payroll clerks at each site and the dual review of the Finance payroll report by the Payroll Technician and Payroll Clerk, we believed that sufficient compensating controls existed to detect any inappropriate changes made. We also agree that controls could be enhanced by further limiting the ability to make such changes, and access to specific payroll/HR screens in TERMS by the Director of Finance and Payroll Clerk has already been removed. In addition, edit listings of new employee additions and payroll changes are being reviewed by the Director of Personnel.

Finding # 6

Section 1011.71, Florida Statute, was amended for 2008-09. We understand that additional guidance has been provided, resulting in disallowance of approximately \$57,000 in costs. We will restore those funds to LCIF by the end of March, and have implemented a process to review those costs monthly beginning in April 2010. This will also shift some workload from the summer to earlier in the year, facilitating the year-end close process.

Finding # 7

We agree that these costs should not have been charged to PECO and have now been restored. The error occurred due to the workload issue noted earlier. Monthly reviews have now been implemented to record costs in the proper fund or reclass costs to the proper fund during the year instead of at year-end.

Finding # 8

As noted in the report, the District had a long-standing working relationship with the architectural firm and was not aware of the on-going prequalification requirement. The Facilities Department has gone

through this process of identifying potential architects and prequalifying them, including the public hearing and Board approval process.

Finding # 9

We agree that such transactions should not occur and have implemented procedures to ensure compliance with Board policies. We will also request a ruling from the Commission on Ethics to ensure there is no violation of Florida Statutes. In the case of the audio-visual equipment installation, the vendor has established a legal entity which also employs other individuals who can perform this work. We have also identified other vendors to potentially provide these services. The lawn maintenance service was terminated in early 2009, and the District is no longer using the part-time maintenance employee for miscellaneous projects.

Finding #10

The form which requires the collection of social security numbers for students has been modified to include the purpose of the collection and to cite the appropriate Florida Statute.

Finding #11

We agree that procedures for reporting adult education courses need to be improved. Regarding non-attendance, the instructor will monitor the daily attendance in the roll book. On the sixth consecutive day of absence the student will be withdrawn from the program with a withdrawal code of W34. Students who are dropped will be reported to data entry in a timely manner.

In an effort to enhance controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education, the 2008-09 and the 2009-10 master schedules have been corrected to reflect the correct days the class met on the 2CF screens. This made it necessary to change the calendar setting on the 2CZ screens (Master Schedule Detail) to reflect the correct days the class met.

Finding # 12

Written policies and procedures are currently being developed by the Panhandle Area Educational Consortium for participating districts. This is a common finding among multiple Districts.

Finding #13

The District Disaster Recovery Plan will be updated by the end of the school year and will be tested by July 2010. Prioritization of critical operations and data, as well as back-up personnel will be included in the plan.

Finding #14

New security controls will be implemented April 1, 2010.

Federal Award Findings

Federal Finding # 1

We agree that the quarterly PSC 272 was not filed on a timely basis. However, the error in the beginning balance carried forward from at least 1996 has now been corrected and reports are now current. Procedures have been implemented to ensure timely reporting on a quarterly basis. We have provided the back-up documentation to the Regional office of US Health and Human Services and will request a final determination letter on this finding for prior years and the 2008-09 year.

As noted in the report, cash draws for the months in the 08-09 year have been made, are now current and are being completed at least twice per month, at the same time as the check runs for payroll and Accounts Payable. Since November 17, 2009 an additional \$644,657.85 has been drawn for project # 2970/71 and \$35,653.01 has been drawn on the new grant # 2070/71 since the project began on 2/1/10.

Federal Finding # 2

We are currently making Federal cash draws for federal programs as expenditures are made for payroll and accounts payable. There are 2-3 draws per month based on these check runs. Since July 1, we have drawn an additional \$954,462.73 for FY 09 and \$1,716,933.43 for FY 10. The DACAS reconciliation is in process and will be complete in April 2010.

Federal Finding # 3

We are now monitoring federal expenditures with the cash balances in the DOE CARDS system as they are reported, at least on a monthly basis. We monitor this as expenditures occur, as described in the response to federal finding #2.

Federal Finding # 4

We will review this with DOE to ensure supplanting is not occurring, and obtain a final determination on the questioned costs. With the reductions in the general fund budget without corresponding decreases in Title I funds, it is increasingly difficult to balance work assignments for Title I schools between general fund and Title I funds. We are making every effort to ensure supplanting is not occurring.

Federal Finding # 5

We agree that the semi-annual certifications of salary and wages benefitting federal programs should be prepared and retained for all employees in the Head Start program or any 100% federally funded program. We will implement review processes to ensure that all forms are returned on a timely basis and retained for audit purposes.

On the Title I reading specialist with split payroll distribution, there was a misunderstanding of the time reporting requirements which has now been corrected. Procedures have been issued to the site administrators to implement, and Personnel Activity Reports will be prepared for all applicable employees.

As noted in the report, DOE has allowed the position of computer technician serving the Title I schools to be funded by the Title I grant. We will submit a request to DOE for a waiver and final determination on the questioned costs for the 2008-09 year. For the 2009-10 year, the salary coding has been changed and year-to-date expenditures have been reclassified to the general fund.

Federal Finding # 6

We will document and implement procedures to ensure that parents whose children are in schools in need of improvement are aware of all available options. We will allow the same access to District facilities to outside SES providers that are allowed to other outside parties. The Department of Education has granted a roll-forward of the \$72,147.63 in earmarked funds, and these funds will either be used in the 2009-10 year or returned to the Title I program. Steps are already being taken to identify ways to enhance the services provided for SES for the remainder of this year.

Federal Finding # 7

We agree that Food Service costs should not have been included as part of the 20% match for the Head Start program. Since this finding is for the period ending 1/31/09, it is not feasible to identify and restate additional District expenditures to arrive at the full 20% match. However, we will request a waiver from Health And Human Services for these questioned costs. For the grant period ending 1/31/10, the provisional SF 269 shows a shortfall of \$7300 in matching. However, our analysis is not complete and we are confident that the full 20% match will be met for the final filing due 4/30/10. We are now monitoring the match requirement quarterly so that action can be taken during the program year to ensure fulfillment of this requirement prior to the end of the reporting period.

Federal Finding # 8

The questioned costs have been restored to the program through the DOE Cash Advance and Reporting (CARDS) system as of 3/16/10, and the 21st Century grant program has refunded the questioned costs to the District.

Federal Finding # 9

We agree and have implemented procedures to ensure that all federally funded contracts contain these provisions, regardless of the dollar amount of the contract or purchase order.