

JEFFERSON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Edward W. Vollertsen, Chair to 11-16-09	1
Sandra G. Saunders, Vice Chair to 11-16-09, Chair from 11-17-09	2
Shirley Alexander Washington, Vice Chair from 11-17-09	3
Marianne Arbulu	4
Charles P. Boland	5

William E. Brumfield, Superintendent

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

The audit team leader was Jaime N. Hoelscher, CPA, and the audit was supervised by Karen L. Revell, CPA. For the information technology portion of this audit, the audit team leader was Danielle M. Alvarez, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

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 and a material weakness as summarized below.

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

MATERIAL WEAKNESS

Finding No. 1: District procedures for reporting information on the financial statements and Schedule of Expenditures of Federal Awards could be improved.

SIGNIFICANT DEFICIENCIES

Finding No. 2: The District needed to enhance its budgetary process and ensure that monthly financial information is timely presented to the Board.

Finding No. 3: Two employees in the finance department had incompatible information technology (IT) access privileges, and other controls did not compensate for these deficiencies.

ADDITIONAL MATTERS

Finding No. 4: The District took action to significantly increase its General Fund unreserved fund balance; however, the District's General Fund unreserved fund balance could be significantly reduced if Federal grantors require questioned program costs to be restored to the Federal programs.

Finding No. 5: Performance assessments for instructional personnel and school administrators were not always consistent with Section 1012.34(3), Florida Statutes.

Finding No. 6: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 7: 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. 8: District records did not evidence that the District made the required notifications to parents of eligible students of the opportunities provided by the John M. McKay Scholarships for Students with Disabilities Program.

Finding No. 9: Controls over student diplomas could be enhanced.

Finding No. 10: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 11: The District had not implemented a comprehensive security awareness training program to protect IT resources.

Finding No. 12: The District lacked written policies and procedures for certain 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: The District's IT security controls related to network and application access and authorization needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; and State Fiscal Stabilization Fund Cluster 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 Special Education Cluster program. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: District records did not evidence that the District met the maintenance of effort requirements for Special Education programs, resulting in \$284,651.47 of questioned costs.

Federal Awards Finding No. 2: Required documentation to support salary and benefit costs, totaling \$377,657.32, for 13 employees performing services for the Title I and Special Education programs was not maintained, contrary to Federal regulations.

Federal Awards Finding No. 3: Controls over monitoring and reporting of Federal cash balances and expenditures could be enhanced to ensure amounts reported to the Florida Department of Education reconciled to the District's accounting records on a timely basis.

Audit Objectives and Scope

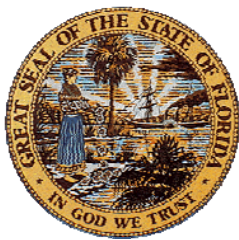
Our audit objectives were to determine whether the Jefferson County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2010-146.

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, 2010. 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 Jefferson County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District 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 16 percent of the assets and 54 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

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

Our audit did not extend to the CARE Charter School of Excellence, Inc. (Charter School), reported as the discretely presented component unit on the accompanying basic financial statements. These financial activities represent 100 percent of the assets, net assets, and revenues of the discretely presented component unit.

Because the Charter School's financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the discretely presented component unit as of and for the year ended June 30, 2010. As disclosed in Note 17, the District terminated the charter of the Charter School on August 23, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Charter School been audited, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Jefferson County District School Board as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Jefferson 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.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 4 through 9) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 40 through 43) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- In total, net assets increased \$434,764.79 from the 2008-09 fiscal year.
- At June 30, 2010, the unrestricted net assets deficit is \$1,349,136.27, compared to a deficit of \$1,969,880.47 at June 30, 2009.
- General revenues total \$12,612,645.90. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$935,243.05.
- Expenses total \$13,113,124.16. Only \$935,243.05 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$434,764.79.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$308,460.31 at June 30, 2010, while total fund balance is \$449,734.19.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- 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 the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, adult, and exceptional education. Support functions such as transportation and administration are also

included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Component unit – The District presents the CARE Charter School of Excellence, Inc. (Charter School), as a separate legal entity in this report. 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. On August 23, 2010, the Board terminated the charter of the Charter School.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories 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, Special Revenue – ARRA Economic Stimulus Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects - Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-10	6-30-09
Current and Other Assets	\$ 2,851,065.72	\$ 1,446,862.90
Capital Assets	29,290,060.37	30,159,561.55
Total Assets	32,141,126.09	31,606,424.45
Long-Term Liabilities	2,306,186.79	2,217,404.61
Other Liabilities	914,500.00	903,345.33
Total Liabilities	3,220,686.79	3,120,749.94
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	28,719,714.67	29,346,183.20
Restricted	1,549,860.90	1,109,371.78
Unrestricted (Deficit)	(1,349,136.27)	(1,969,880.47)
Total Net Assets	\$ 28,920,439.30	\$ 28,485,674.51

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

Operating Results for the Year		
	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 94,996.78	\$ 88,783.10
Operating Grants and Contributions	637,856.54	813,084.39
Capital Grants and Contributions	202,389.73	333,618.02
General Revenues:		
Property Taxes, Levied for Operational Purposes	3,806,374.41	3,363,591.57
Property Taxes, Levied for Capital Projects	907,789.92	1,043,617.06
Grants and Contributions Not Restricted to Specific Programs	7,305,786.10	6,846,339.32
Unrestricted Investment Earnings	40,230.56	(53,711.87)
Miscellaneous	552,464.91	407,664.88
Total Revenues	13,547,888.95	12,842,986.47
Functions/Program Expenses:		
Instruction	6,273,623.10	6,258,431.72
Pupil Personnel Services	261,616.58	372,098.47
Instructional Media Services	97,517.68	101,738.97
Instruction and Curriculum Development Services	616,523.71	479,789.57
Instructional Staff Training Services	55,420.66	177,507.85
Instruction Related Technology	140,242.97	146,663.97
School Board	254,097.25	288,663.77
General Administration	505,471.60	447,926.52
School Administration	532,298.44	665,117.22
Facilities Acquisition and Construction	190,768.66	359,477.72
Fiscal Services	295,989.66	319,799.42
Food Services	556,863.93	606,275.13
Central Services	26,082.33	24,306.73
Pupil Transportation Services	852,168.69	819,926.95
Operation of Plant	988,278.78	1,093,686.32
Maintenance of Plant	270,442.42	354,644.90
Administrative Technology Services	75,535.53	76,170.35
Unallocated Interest on Long-Term Debt	51,953.46	75,947.38
Unallocated Depreciation Expense	1,068,228.71	1,082,446.40
Total Functions/Program Expenses	13,113,124.16	13,750,619.36
Increase (Decrease) in Net Assets	\$ 434,764.79	\$ (907,632.89)

The largest revenue source is the State of Florida. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Grants and contributions not restricted to specific programs revenues increased by \$459,446.78 over the amount from the prior fiscal year due primarily to ARRA funds received. Total governmental expenses decreased by \$637,495.20 as a result of budgeted reductions in staff and other operating costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$308,460.31, while the total fund balance is \$449,734.19. The unreserved fund balance increased by \$997,276.60, while the total fund balance increased by \$1,028,817.90 during the fiscal year. Total revenues and other financing sources did not significantly change from the prior year; however, total expenditures decreased by \$1,971,771.99. The majority of the decrease occurred in the instruction function due primarily to the shifting of certain instructional salaries and benefits previously recorded in the General Fund to the Special Revenue – ARRA Economic Stimulus Fund, as well as an overall reduction in staff and other operating costs.

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 \$1,815,085.79 each, or 10.79 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 Special Revenue – ARRA Economic Stimulus Fund has total revenues and expenditures of \$846,418.12 each, and the funding was mainly used for instructional staff. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and the Capital Projects – Other Fund have total fund balances of \$299,554.15, \$498,769.67, and \$422,336.84, respectively, which were restricted for the acquisition, construction, and maintenance of capital assets. The fund balance for the Capital Projects – Local Capital Improvement Fund increased in the current year due to a decrease in facilities acquisition and construction and other capital outlay expenditures. The fund balances of the Capital Projects – Public Education Capital Outlay Fund and Capital Projects – Other Fund increased because of the nonexpenditure of Public Education Capital Outlay appropriations and Classrooms First appropriations, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2009-10 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to \$238,487.56, or 2.72 percent. At the same time, final appropriations are greater than the original budgeted amounts by \$324,678.90. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues and expenditures were in line with final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$176,542.64.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$29,290,060.37 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

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

Long-Term Debt

At June 30, 2010, the District has total long-term debt outstanding of \$570,345.70. This amount is comprised of \$330,345.70 installment-purchases and \$240,000 of bonds payable. During the fiscal year, retirement of debt amounted to \$243,032.65.

Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The Jefferson County School Board is in a precarious financial condition, and is facing uncertain economic times. During the 2008-09 fiscal year, the Florida Department of Education (FDOE) appointed a financial emergency board to provide support and financial oversight to the District, which continued to provide oversight during the 2009-10 fiscal year. The unreserved fund balance in the District's General Fund increased from a deficit of \$688,816.29 at June 30, 2009, to \$308,460.31 at June 30, 2010. The unreserved fund balance at June 30, 2010, totaling \$308,460.31, represented approximately 3.4 percent of General Fund revenues. The impact of pending budget reductions at the State level remains unknown at this time. In light of uncertain economic times, the District will continually monitor the financial condition. The School Board must continue to be vigilant in monitoring its resources to meet the demands of the public education system. Plans have been developed to contend with the revenue shortfall, including instituting a hiring freeze for all nonessential positions, consolidating bus routes, eliminating educational programs not mandated by FDOE, eliminating nonessential equipment purchases, and reducing all nonessential travel.

During the 2009-10 fiscal year, approximately 120 students attended CARE Charter School of Excellence, Inc. (charter school). On August 23, 2010, the School Board met and voted to immediately terminate the charter school's charter. The State Board of Education, on December 17, 2010, denied an appeal by the charter school of the School Board's decision to terminate the charter. The majority of students previously enrolled in the charter school enrolled in a District school during the 2010-11 fiscal year; therefore, FEFP funding for these students will be retained by the District.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Jefferson County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Jefferson County District School Board, 575 South Water Street, Monticello, FL 32344.

BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2010

	Primary Government Governmental Activities	Component Unit (Unaudited)
ASSETS		
Cash and Cash Equivalents	\$ 1,642,241.61	\$ 22,623.28
Taxes Receivable	362,785.27	
Accounts Receivable		129,121.29
Due from Other Agencies	634,082.09	
Investments	132,045.32	
Inventories	79,911.43	
Capital Assets:		
Nondepreciable Capital Assets	1,004,889.14	
Depreciable Capital Assets, Net	28,285,171.23	75,213.00
TOTAL ASSETS	\$ 32,141,126.09	\$ 226,957.57
LIABILITIES		
Salaries and Benefits Payable	\$ 245,314.69	\$ 32,077.78
Payroll Deductions and Withholdings	245,919.09	
Accounts Payable	228,649.46	80,852.89
Due to Fiscal Agent		67,269.16
Matured Installment-Purchases Payable	102,641.27	
Matured Interest Payable	9,983.30	
Due to Other Agencies	32,526.07	
Deferred Revenue	49,466.12	
Long-Term Liabilities:		
Portion Due Within One Year	312,731.77	3,000.00
Portion Due After One Year	1,993,455.02	
Total Liabilities	3,220,686.79	183,199.83
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	28,719,714.67	
Restricted for:		
State Required Carryover Programs	5,366.71	
Debt Service	6,224.82	
Capital Projects	1,338,503.20	
Food Service	142,103.51	
Fuel Tax Refund	57,662.66	
Unrestricted Deficit	(1,349,136.27)	43,757.74
Total Net Assets	28,920,439.30	43,757.74
TOTAL LIABILITIES AND NET ASSETS	\$ 32,141,126.09	\$ 226,957.57

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

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**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 6,273,623.10	\$	\$	\$
Pupil Personnel Services	261,616.58			
Instructional Media Services	97,517.68			
Instruction and Curriculum Development Services	616,523.71			
Instructional Staff Training Services	55,420.66			
Instruction Related Technology	140,242.97			
School Board	254,097.25			
General Administration	505,471.60			
School Administration	532,298.44			
Facilities Acquisition and Construction	190,768.66			90,597.66
Fiscal Services	295,989.66			
Food Services	556,863.93	72,217.78	541,923.54	
Central Services	26,082.33			
Pupil Transportation Services	852,168.69	22,779.00	95,933.00	
Operation of Plant	988,278.78			
Maintenance of Plant	270,442.42			57,271.00
Administrative Technology Services	75,535.53			
Unallocated Interest on Long-Term Debt	51,953.46			54,521.07
Unallocated Depreciation Expense*	1,068,228.71			
Total Primary Government	\$ 13,113,124.16	\$ 94,996.78	\$ 637,856.54	\$ 202,389.73
Component Unit (Unaudited)				
CARE Charter School of Excellence, Inc.	\$ 1,059,018.95	\$ 2,079.75	\$ 116,372.86	\$ 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				

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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	(Unaudited)
\$ (6,273,623.10)	\$
(261,616.58)	
(97,517.68)	
(616,523.71)	
(55,420.66)	
(140,242.97)	
(254,097.25)	
(505,471.60)	
(532,298.44)	
(100,171.00)	
(295,989.66)	
57,277.39	
(26,082.33)	
(733,456.69)	
(988,278.78)	
(213,171.42)	
(75,535.53)	
2,567.61	
(1,068,228.71)	
\$ (12,177,881.11)	\$
	(940,566.34)
3,806,374.41	
907,789.92	
7,305,786.10	942,839.00
40,230.56	
552,464.91	2,416.08
12,612,645.90	945,255.08
434,764.79	4,688.74
28,485,674.51	39,069.00
\$ 28,920,439.30	\$ 43,757.74

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash	\$ 605,594.75	\$ 212.04	\$ 189,077.35	\$ 161,656.28
Taxes Receivable	292,982.77			
Due from Other Funds	228,641.74	104,352.73	25,549.60	287,718.79
Due from Other Agencies	360,550.70	115,515.41		86,897.00
Investments	80,609.78	9,406.83		14,586.19
Inventories	48,140.43			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,616,520.17</u>	<u>\$ 229,487.01</u>	<u>\$ 214,626.95</u>	<u>\$ 550,858.26</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 245,314.69	\$	\$	\$
Payroll Deductions and Withholdings	217,679.62	17,248.78	10,990.69	
Accounts Payable	125,769.34	87,914.33	10,212.27	
Matured Installment-Purchase Payable				
Matured Interest Payable				
Due to Other Agencies	30,421.74	1,398.22		
Due to Other Funds	547,600.59	122,925.68	143,957.87	251,304.11
Deferred Revenue			49,466.12	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,166,785.98</u>	<u>229,487.01</u>	<u>214,626.95</u>	<u>251,304.11</u>
Fund Balances:				
Reserved for State Required Carryover Programs	5,366.71			
Reserved for Encumbrances	23,972.03			
Reserved for Fuel Tax Refund	57,662.66			
Reserved for Investment in Fund B Surplus Funds Trust Fund	54,272.48			
Reserved for Debt Service				
Unreserved, Reported In:				
General Fund	308,460.31			
Special Revenue Funds				
Capital Projects Funds				299,554.15
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>449,734.19</u>	<u> </u>	<u> </u>	<u>299,554.15</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,616,520.17</u>	<u>\$ 229,487.01</u>	<u>\$ 214,626.95</u>	<u>\$ 550,858.26</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
\$ 409,486.01	\$ 71,495.82	\$ 204,719.36	\$ 1,642,241.61
69,802.50			362,785.27
358,552.10	272,717.67	62,664.87	1,340,197.50
377.98	70,741.00		634,082.09
	8,088.46	19,354.06	132,045.32
		31,771.00	79,911.43
\$ 838,218.59	\$ 423,042.95	\$ 318,509.29	\$ 4,191,263.22
\$	\$	\$	\$ 245,314.69
			245,919.09
4,753.52			228,649.46
102,641.27			102,641.27
9,983.30			9,983.30
	706.11		32,526.07
222,070.83		52,338.42	1,340,197.50
			49,466.12
339,448.92	706.11	52,338.42	2,254,697.50
			5,366.71
		16,336.73	40,308.76
			57,662.66
			54,272.48
		6,224.82	6,224.82
			308,460.31
		125,766.78	125,766.78
498,769.67	422,336.84	117,842.54	1,338,503.20
498,769.67	422,336.84	266,170.87	1,936,565.72
\$ 838,218.59	\$ 423,042.95	\$ 318,509.29	\$ 4,191,263.22

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010**

Total Fund Balances - Governmental Funds	\$	1,936,565.72
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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.		29,290,060.37
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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:

Installment-Purchases Payable	\$ 330,345.70	
Bonds Payable	240,000.00	
Other Postemployment Benefits Payable	332,226.00	
Compensated Absences Payable	<u>1,403,615.09</u>	<u>(2,306,186.79)</u>

Total Net Assets - Governmental Activities	\$	<u>28,920,439.30</u>
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The accompanying notes to financial statements are an integral part of this statement.

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**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 58,237.23	\$	\$	\$
Federal Through State and Local	160,578.68	1,796,364.31	846,418.12	
State	4,541,118.57			57,271.00
Local:				
Property Taxes	3,806,374.41			
Charges for Services - Food Service				
Miscellaneous	457,153.12	18,721.48		4,789.64
Total Revenues	9,023,462.01	1,815,085.79	846,418.12	62,060.64
Expenditures				
Current - Education:				
Instruction	4,382,542.32	1,027,380.79	674,157.29	
Pupil Personnel Services	186,063.69	64,789.50	1,082.86	
Instructional Media Services	93,689.82	169.39		
Instruction and Curriculum Development Services	243,330.73	249,458.50	98,913.84	
Instructional Staff Training Services	179.58	54,698.69		
Instruction Related Technology	135,064.96			
School Board	248,030.60			
General Administration	291,632.67	155,186.47	44,574.83	
School Administration	511,703.06			
Facilities Acquisition and Construction				1,110.90
Fiscal Services	286,021.61			
Food Services	4,410.96	629.69		
Central Services	16,884.33	9,180.30		
Pupil Transportation Services	702,438.76	60,117.52	2,824.30	
Operation of Plant	888,107.47	1,273.60		
Maintenance of Plant	229,218.32			
Administrative Technology Services	69,630.06			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	21,120.00			1,531.76
Other Capital Outlay	1,592.64	192,201.34	24,865.00	
Debt Service:				
Principal				
Interest and Fiscal Charges	9,583.28			
Total Expenditures	8,321,244.86	1,815,085.79	846,418.12	2,642.66
Excess of Revenues Over Expenditures	702,217.15			59,417.98
Other Financing Sources (Uses)				
Transfers In	200,000.00			
Proceeds from Sale of Capital Assets	79,000.00			
Insurance Loss Recoveries	47,600.75			
Transfers Out				
Total Other Financing Sources (Uses)	326,600.75			
Net Change in Fund Balances	1,028,817.90			59,417.98
Fund Balances, Beginning	(579,083.71)			240,136.17
Fund Balances, Ending	\$ 449,734.19	\$ 0.00	\$ 0.00	\$ 299,554.15

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
\$	\$	\$	\$
		526,307.54	58,237.23
	70,741.00	88,995.92	3,329,668.65
			4,758,126.49
907,789.92			4,714,164.33
		72,217.78	72,217.78
703.87	2,432.82	5,072.79	488,873.72
908,493.79	73,173.82	692,594.03	13,421,288.20
			6,084,080.40
			251,936.05
			93,859.21
			591,703.07
			54,878.27
			135,064.96
			248,030.60
			491,393.97
			511,703.06
181,491.22			182,602.12
		541,964.11	286,021.61
			547,004.76
			26,064.63
			765,380.58
88,686.00			978,067.07
9,612.36		27,400.00	266,230.68
3,280.00			72,910.06
24,006.40			46,658.16
6,825.00		781.45	226,265.43
203,032.65		40,000.00	243,032.65
27,879.22		14,490.96	51,953.46
544,812.85		624,636.52	12,154,840.80
363,680.94	73,173.82	67,957.51	1,266,447.40
			200,000.00
			79,000.00
			47,600.75
(200,000.00)			(200,000.00)
(200,000.00)			126,600.75
163,680.94	73,173.82	67,957.51	1,393,048.15
335,088.73	349,163.02	198,213.36	543,517.57
\$ 498,769.67	\$ 422,336.84	\$ 266,170.87	\$ 1,936,565.72

**JEFFERSON 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, 2010**

Net Change in Fund Balances - Governmental Funds **\$ 1,393,048.15**

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. (869,501.18)

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

Installment-Purchases Payable	\$	203,032.65	
Bonds Payable		40,000.00	
			243,032.65

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (167,404.83)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (164,410.00)

Change in Net Assets - Governmental Activities **\$ 434,764.79**

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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2010**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 60,638
LIABILITIES	
Accounts Payable	\$ 91
Internal Accounts Payable	60,547
Total Liabilities	\$ 60,638

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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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 Jefferson County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Jefferson County District School Board (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 Jefferson 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 Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

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

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the CARE Charter School of Excellence, Inc. (Charter School). The Charter School, was a separate not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School operated under a charter approved by its sponsor, the Jefferson County District School Board, and was considered a component unit since it was fiscally dependent on the District to levy taxes for its support. As disclosed in Note 17, the District terminated the charter of the Charter School subsequent to June 30, 2010. Consequently, an audit of the Charter School for the fiscal year ended June 30, 2010, was not conducted and the financial data reported on the accompanying statements is unaudited.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the 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 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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Fund to be used for educational capital outlay needs, including new construction, remodeling, renovation, maintenance, repairs, and site improvements.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments for the District's installment-purchases.
- Capital Projects – Other Fund – to account for the financial resources generated by various State and local sources, including Classrooms First, Class Size Reduction Construction, and historical preservation grants.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

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

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

➤ **Deposits and Investments**

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

Investments consist of amounts placed in State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys; and amounts placed with SBA for participation in the Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, and 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 Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. 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 Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost, except that United States Department of Agriculture donated foods 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 weighted average composite method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Fixed Equipment	50 years
Improvements Other than Buildings	10 - 35 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

➤ **State Revenue Sources**

Significant revenues from State sources for current operations include 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 five 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 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 educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

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

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

➤ **District Property Taxes**

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

The Board adopted the 2009 tax levy on September 14, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Jefferson 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

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.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	46 Day Average	\$ 42,110.41
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	83,710.09
Debt Service Accounts	6 Months	6,224.82
Total Investments		<u>\$ 132,045.32</u>

Interest Rate Risk

- The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit the District's investment choices.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 992,276.14	\$	\$	\$ 992,276.14
Construction in Progress	12,613.00			12,613.00
Total Capital Assets Not Being Depreciated	1,004,889.14			1,004,889.14
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	944,582.81			944,582.81
Buildings and Fixed Equipment	36,058,540.62	23,400.00		36,081,940.62
Furniture, Fixtures, and Equipment	2,279,600.03	174,716.12	211,984.73	2,242,331.42
Motor Vehicles	1,763,370.27		68,387.41	1,694,982.86
Audio Visual Materials and Computer Software	327,707.71	66,640.93	11,521.90	382,826.74
Total Capital Assets Being Depreciated	41,373,801.44	264,757.05	291,894.04	41,346,664.45
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	934,115.84	1,107.00		935,222.84
Buildings and Fixed Equipment	8,288,112.20	881,690.25		9,169,802.45
Furniture, Fixtures, and Equipment	1,605,121.30	101,576.50	211,984.73	1,494,713.07
Motor Vehicles	1,134,517.74	66,029.52	68,387.41	1,132,159.85
Audio Visual Materials and Computer Software	257,261.95	83,854.96	11,521.90	329,595.01
Total Accumulated Depreciation	12,219,129.03	1,134,258.23	291,894.04	13,061,493.22
Total Capital Assets Being Depreciated, Net	29,154,672.41	(869,501.18)		28,285,171.23
Governmental Activities Capital Assets, Net	\$ 30,159,561.55	\$ (869,501.18)	\$	\$ 29,290,060.37

The classes of property under installment-purchase agreements are presented in Note 6.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 66,029.52
Unallocated	1,068,228.71
	<u>1,134,258.23</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,134,258.23</u></u>

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note - Operating	\$	\$ 1,825,000.00	\$ 1,825,000.00	\$
	<u>\$</u>	<u>\$ 1,825,000.00</u>	<u>\$ 1,825,000.00</u>	<u>\$</u>

Proceeds from the tax anticipation note were used as a working capital reserve in the General Fund as permitted under State and Federal tax laws.

6. INSTALLMENT-PURCHASES PAYABLE

The classes and amounts of property being acquired under installment-purchase agreements are as follows:

	<u>Asset Balances</u>
Relocatable Classrooms	\$ 455,892.00
Modular Buildings	306,123.00
Security/Fire Alarm System	<u>300,414.00</u>
Total	<u><u>\$ 1,062,429.00</u></u>

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 225,309.14	\$ 212,486.13	\$ 12,823.01
2012	121,575.72	117,859.57	3,716.15
Total Minimum Installment-Purchases Payments	<u>\$ 346,884.86</u>	<u>\$ 330,345.70</u>	<u>\$ 16,539.16</u>

The stated interest rates range from 4.500 to 4.705 percent.

7. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2002B	<u>\$ 240,000.00</u>	4.000 - 5.375	2015

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 57,281.25	\$ 45,000.00	\$ 12,281.25
2012	54,862.50	45,000.00	9,862.50
2013	58,062.50	50,000.00	8,062.50
2014	55,375.00	50,000.00	5,375.00
2015	52,687.50	50,000.00	2,687.50
Total	<u>\$ 278,268.75</u>	<u>\$ 240,000.00</u>	<u>\$ 38,268.75</u>

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchases Payable	\$ 533,378.35	\$	\$ 203,032.65	\$ 330,345.70	\$ 212,486.13
Bonds Payable	280,000.00		40,000.00	240,000.00	45,000.00
Compensated Absences Payable	1,236,210.26	553,353.21	385,948.38	1,403,615.09	55,245.64
Other Postemployment Benefits Payable	167,816.00	352,683.00	188,273.00	332,226.00	
Total Governmental Activities	<u>\$ 2,217,404.61</u>	<u>\$ 906,036.21</u>	<u>\$ 817,254.03</u>	<u>\$ 2,306,186.79</u>	<u>\$ 312,731.77</u>

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

9. 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	\$ 228,641.74	\$ 547,600.59
Special Revenue:		
Other	104,352.73	122,925.68
ARRA	25,549.60	143,957.87
Capital Projects:		
Public Education Capital Outlay	287,718.79	251,304.11
Local Capital Improvement	358,552.10	222,070.83
Other	272,717.67	
Nonmajor Governmental	62,664.87	52,338.42
Total	<u>\$ 1,340,197.50</u>	<u>\$ 1,340,197.50</u>

The receivables and payables generally occurred during the normal course of District operations except that amounts due from the General Fund were primarily for temporary loans. The amounts are expected to be repaid within one year.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 200,000.00	\$
Capital Projects:		
Local Capital Improvement		200,000.00
Total	<u>\$ 200,000.00</u>	<u>\$200,000.00</u>

The transfers were primarily for facilities maintenance work.

10. 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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund total \$61,012.46, and \$3,700.00, respectively, at June 30, 2010.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 2,809,758.40
Categorical Educational Program - Class Size Reduction	1,153,927.00
Workforce Development Program	168,051.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	74,346.61
Classrooms First	70,741.00
Gross Receipts Tax (Public Education Capital Outlay)	57,271.00
Miscellaneous	424,031.48
Total	<u>\$ 4,758,126.49</u>

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.298	\$ 3,288,230.98
Basic Discretionary Local Effort	0.748	464,250.05
Critical Operating Needs	0.250	155,163.79
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	930,982.72
Total	<u>7.796</u>	<u>\$ 4,838,627.54</u>

13. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida 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.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$752,499.99, \$667,274.12, and \$565,152.96, respectively, which were equal to the required contributions for each fiscal year. There were 14 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$61,050.73.

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.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, 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. The District does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 82 retirees received other postemployment benefits. The District provided required contributions of \$188,273 toward the annual OPEB cost. Plan members receiving benefits contributed \$322,003 through their required contributions ranging from \$180 to \$373 per month for retiree-only coverage, and from \$360 to \$746 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 Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Amount
Normal Cost (service cost for one year)	\$ 137,321
Amortization of Unfunded Actuarial Accrued Liability	200,690
Interest on Normal Cost and Amortization	<u>13,964</u>
Annual Required Contribution	351,975
Interest on Net OPEB Obligation	5,957
Adjustment to Annual Required Contribution	<u>(5,249)</u>
Annual OPEB Cost (Expense)	352,683
Contribution Toward the OPEB Cost	<u>(188,273)</u>
Increase in Net OPEB Obligation	164,410
Net OPEB Obligation, Beginning of Year	<u>167,816</u>
Net OPEB Obligation, End of Year	<u><u>\$ 332,226</u></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, 2010, and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0.00%	\$ 0
2008-09	339,047	50.50%	167,816
2009-10	352,683	53.38%	332,226

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$6,062,490, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$6,062,490 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$4,859,518, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 124.75 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

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's initial OPEB actuarial valuation as of October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and to estimate the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an initial annual healthcare cost trend rate of 5 percent beginning January 1, 2008, rising to 9 percent the following year, before falling 0.5 percent per year to an ultimate rate of 5 percent after eight 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, 2010, was 28 years.

15. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Jefferson County District School Board is a member of the Panhandle Area Educational - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

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

Employee group health and hospitalization coverage are being provided through purchased commercial insurance, with minimum deductibles for each line of coverage.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

16. OTHER LOSS CONTINGENCIES

The District received financial assistance from various Federal agencies in the form of grants and appropriations during the 2009-10 fiscal year. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination either directly by the agency itself, or indirectly by the grants management department of the Florida Department of Education (FDOE) if they are acting as fiscal agent and compliance monitor. Any disallowed claims based on the OMB's *Circular A-133 Compliance Supplement* could become a liability of the General Fund. The questioned costs identified in the audits for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2010, totaled \$144,100.18, 102,537.20, and \$284,651.47 respectively for a total of \$531,288.85. On February 21, 2011, FDOE issued a final determination letter for the questioned costs noted in the audit for the fiscal year ending June 30, 2007, and the grantor requested restoration of questioned costs totaling \$102,537.20. These questioned costs requested to be restored to the program have a material effect on the District's overall financial position. In addition, if the questioned costs noted in the audits for the fiscal years ended June 30, 2006, and June 30, 2010, are disallowed by the grantor, these amounts would also have a material effect on the overall financial position of the District.

17. SUBSEQUENT EVENTS

On June 28, 2010, the Board obtained two revolving lines-of-credit in the amounts of \$2,000,000 (operating) and \$850,000 (capital) from Capital City Bank, at a 3.25 percent fixed rate of interest. Subsequent to June 30, 2010, the District borrowed \$250,000 from the operating line-of-credit to fund District operations until receipt of tax revenue in December 2010. On December 17, 2010, the District repaid the line-of-credit and closed the account.

On August 23, 2010, the Board met and voted to immediately terminate the charter of the CARE Charter School of Excellence, Inc. for failing to comply with the requirements of the Jessica Lunsford Act and failure to meet generally accepted standards of fiscal management. The State Board of Education, on December 17, 2010, denied an appeal by the charter school of the Board's decision.

REQUIRED SUPPLEMENTARY INFORMATION

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 60,152.00	\$ 58,237.23	\$ 58,237.23	\$
Federal Through State and Local	80,000.00	97,950.17	160,578.68	62,628.51
State	4,523,227.00	4,565,164.07	4,541,118.57	(24,045.50)
Local:				
Property Taxes	3,772,128.00	3,806,374.41	3,806,374.41	
Miscellaneous	344,450.00	490,718.68	457,153.12	(33,565.56)
Total Revenues	8,779,957.00	9,018,444.56	9,023,462.01	5,017.45
Expenditures				
Current - Education:				
Instruction	4,195,316.00	4,395,215.42	4,382,542.32	12,673.10
Pupil Personnel Services	143,498.00	186,063.69	186,063.69	
Instructional Media Services	92,552.00	93,689.82	93,689.82	
Instruction and Curriculum Development Services	214,522.00	243,330.73	243,330.73	
Instructional Staff Training Services		179.58	179.58	
Instruction Related Technology	134,929.00	135,064.96	135,064.96	
School Board	276,058.00	258,030.60	248,030.60	10,000.00
General Administration	338,894.00	295,591.74	291,632.67	3,959.07
School Administration	511,582.00	511,703.06	511,703.06	
Facilities Acquisition and Construction	9,613.00			
Fiscal Services	265,524.00	286,021.61	286,021.61	
Food Services		4,410.96	4,410.96	
Central Services	7,700.00	16,884.33	16,884.33	
Pupil Transportation Services	674,514.00	702,438.76	702,438.76	
Operation of Plant	876,140.00	888,107.47	888,107.47	
Maintenance of Plant	213,319.00	247,627.19	229,218.32	18,408.87
Administrative Technology Services	71,446.00	69,630.06	69,630.06	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		21,120.00	21,120.00	
Other Capital Outlay		1,592.64	1,592.64	
Debt Service:				
Interest and Fiscal Charges	16,000.00	9,583.28	9,583.28	
Total Expenditures	8,041,607.00	8,366,285.90	8,321,244.86	45,041.04
Excess Revenues Over Expenditures	738,350.00	652,158.66	702,217.15	50,058.49
Other Financing Sources				
Transfers In	200,000.00	200,000.00	200,000.00	
Proceeds from Sale of Capital Assets			79,000.00	79,000.00
Insurance Loss Recoveries		116.60	47,600.75	47,484.15
Total Other Financing Sources	200,000.00	200,116.60	326,600.75	126,484.15
Net Change in Fund Balances	938,350.00	852,275.26	1,028,817.90	176,542.64
Fund Balances, Beginning	(938,350.00)	(579,083.71)	(579,083.71)	
Fund Balances, Ending	\$ 0.00	\$ 273,191.55	\$ 449,734.19	\$ 176,542.64

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$
1,824,877.00	1,815,085.79	1,796,364.31	(18,721.48)	1,059,168.00	846,418.12	846,418.12	
		18,721.48	18,721.48				
1,824,877.00	1,815,085.79	1,815,085.79		1,059,168.00	846,418.12	846,418.12	
1,043,328.00	1,027,380.79	1,027,380.79		621,455.00	674,157.29	674,157.29	
141,582.00	64,789.50	64,789.50		136,854.00	1,082.86	1,082.86	
	169.39	169.39					
148,076.00	249,458.50	249,458.50		198,838.00	98,913.84	98,913.84	
240,553.00	54,698.69	54,698.69		30,085.00			
				4,000.00			
155,694.00	155,186.47	155,186.47		36,104.00	44,574.83	44,574.83	
	629.69	629.69		16,480.00			
3,313.00	9,180.30	9,180.30		2,850.00			
92,331.00	60,117.52	60,117.52		12,502.00	2,824.30	2,824.30	
	1,273.60	1,273.60					
	192,201.34	192,201.34			24,865.00	24,865.00	
1,824,877.00	1,815,085.79	1,815,085.79		1,059,168.00	846,418.12	846,418.12	
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 6,062,490	\$ 6,062,490	0.00%	\$ 4,859,518	124.75%

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

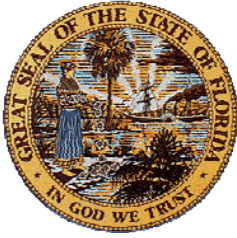
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010**

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	\$ 148,179.98	\$
National School Lunch Program	10.555	300,350	331,742.56	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	38,917.00	
Total Child Nutrition Cluster			518,839.54	
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	15,325.00	
Total United States Department of Agriculture			534,164.54	
United States Department of Labor:				
Indirect:				
Florida's Great Northwest, Inc.				
WIA Pilots, Demonstrations, and Research Projects	17.261	None	30,019.38	
Total United States Department of Labor			30,019.38	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	520,012.38	34,777.51
Special Education - Preschool Grants	84.173	267	15,151.40	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	207,215.01	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	2,427.03	
Leon County District School Board:				
Special Education - Grants to States	84.027	None	17,143.47	
Total Special Education Cluster			761,949.29	34,777.51
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	940,970.19	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	236,310.99	
Total Title I, Part A Cluster			1,177,281.18	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	2,650.00	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	2,339.10	
Total Educational Technology State Grants Cluster			4,989.10	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	344,430.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	40,025.18	
Total State Stabilization Fund Cluster			384,455.18	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	36,808.94	
Career and Technical Education - Basic Grants to States	84.048	161	71,931.07	
Twenty-First Century Community Learning Centers	84.287	244	82,298.83	
Rural Education	84.358	110	47,013.39	
Improving Teacher Quality State Grants	84.367	224	99,274.21	
Tallahassee Community College:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	None	8,704.81	
Total United States Department of Education			2,674,706.00	34,777.51
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	24,045.50	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	58,237.23	
Total Expenditures of Federal Awards			\$ 3,321,172.65	\$ 34,777.51

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.



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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 Jefferson County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. Our audit did not extend to the CARE Charter School of Excellence, Inc., the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Jefferson County District School Board's financial statements. For the school internal funds, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain deficiency in internal

control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 2 and 3 to be significant deficiencies.

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.

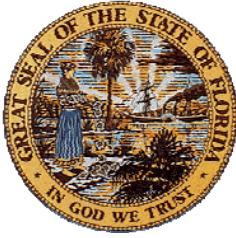
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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 15, 2011



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Jefferson County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. 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 its 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 OMB *Circular A-133*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Matching, Level of Effort, Earmarking – Maintenance of Effort that are applicable to its Special Education Cluster 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 and 3.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we considered to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. 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. 2 and 3 to be significant deficiencies.

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 the response.

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 15, 2011

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Except for the exclusion of the discretely presented component unit from the scope of the audit, there was no modification to the opinions on the financial statements.
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be 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 a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs, except for the Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA and 84.392-ARRA), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles. In addition, United States Office of Management and Budget (OMB) *Circular A-133* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that lists grants and their respective expenditures.

One of the principal methods that a school district uses to document accountability for public resources it receives and uses is by the information included in its annual financial report. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the School 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 2009-10 fiscal year annual financial report, as presented for audit, disclosed that improvements could be made in the District's financial reporting procedures. For example:

Government-Wide and Reconciliation Schedules:

- District personnel did not consider the major capital project funds when calculating the restricted for capital projects amount for the statement of net assets, resulting in an understatement of restricted for capital projects and overstatement of unrestricted net assets by \$1,335,143.18 each. Misreporting net asset classifications may cause financial statement users to incorrectly assess the District's financial position.
- The District's financial statements are required to include a reconciliation schedule explaining the differences between the change in fund balances reported in the fund financial statements and the change in net assets reported in the government-wide financial statements. Reconciling items typically arise from differences in the measurement focus and basis of accounting between the statements, and certain required eliminations. The District's reconciliation schedule incorrectly reported debt repayments and the increase in compensated absences and other postemployment benefits liability as the amount that bond proceeds exceeded debt repayments, although the District received no bond proceeds during the 2009-10 fiscal year. Without adequate explanations of long-term debt information on the reconciliation schedules, the schedules may not effectively communicate the District's debt activities.

Fund Financial Statements:

- The District overstated due from other agencies and State revenue by \$180,564 each in the Capital Projects – Other Fund, and underreported due from other agencies and State revenue by \$57,271 each in the Capital Projects – Public Education Capital Outlay Fund. These errors occurred because District personnel

misunderstood guidance from the Florida Department of Education (FDOE) that requires revenue recognition of State capital outlay appropriations when FDOE issues encumbrance authorizations. By misreporting such accounts and transactions, capital outlay activities may be misinterpreted.

- The District did not properly identify and consider certain accruals at year-end, resulting in understatements of \$126,691.93 each in cash and payroll deductions and withholdings payable accounts in the General Fund. These deficiencies also resulted in overstatements of \$96,549.49 in cash and various other accounts such as due to other funds in the Special Revenue – Other Fund. Without reporting cash activities in the appropriate period, ending cash balances may be misunderstood.
- As noted in Federal Awards Finding No. 3, the District did not timely reconcile FDOE records to the District's accounting records, resulting in due from other agencies overstatements of \$74,901.98, and understatements of cash and deferred revenue by \$124,368.10 and \$49,466.12, respectively, in the Special Revenue – ARRA Economic Stimulus Fund. Prompt reconciliations of FDOE and District records would provide assurance of the accuracy of these records and related amounts reported on the financial statements.

Schedule of Expenditures of Federal Awards:

- The annual financial report submitted to FDOE and approved by the Board did not include the required SEFA, contrary to OMB *Circular A-133*. Subsequently, in response to our inquiries, the District prepared the SEFA and provided a copy for our review on January 7, 2011.

While District personnel focused much of their attention on improving the District's financial condition, as discussed in Finding No.4, District procedures were ineffective to ensure the accuracy of the financial statements. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's basic financial statements and SEFA were materially correct, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2010-146.

Recommendation: **The District should improve financial reporting procedures to ensure that financial statement account balances and transactions and SEFA information are properly reported.**

SIGNIFICANT DEFICIENCIES

Finding No. 2: Budgetary Controls and Financial Monitoring

The process for adopting and amending the budget provides the District a mechanism to plan a level of expenditures to meet its obligations while remaining within available financial resources. Without properly monitoring and amending the budget to meet changing financial circumstances, there is an increased risk that expenditures may exceed available resources. Section 1011.05, Florida Statutes, provides that the official budget shall not be altered, amended, or exceeded except as authorized.

Section 1011.06, Florida Statutes, provides that the Board may establish policies that allow expenditures to exceed the amount budgeted per function, if the Board approves the expenditure and amends the budget within timelines established by the policies. Pursuant to this statute, the Board adopted Board Policy 6.106, allowing expenditures to exceed the amount budgeted within a fund at the functional level, provided the Board approves such expenditures and amends the budget within 35 days of the date in which the District incurred the expenditures. The policy also prohibits Board approval of budget amendments after the due date of the annual financial report for the year. In addition, State Board of Education Rule 6A-1.008, Florida Administrative Code (FAC), requires that monthly financial statements be prepared and submitted to the Board. Board Policy 6.107 provides that the Superintendent must

submit a monthly financial statement to the Board, including a cumulative report of all receipts and expenditures for the fiscal year.

Our review disclosed that the original budget was prepared and approved in accordance with applicable laws and rules; however, improvements were needed in budgetary controls and compliance and in the monthly financial reporting process, as follows:

- The General Fund's budgeted July 1, 2009, fund balance, was a deficit of \$938,350, in the original budget adopted by the Board, although the Board-approved final budget and actual beginning fund balance as of June 30, 2009, was a deficit of \$579,083.71. While the Board eventually approved budget amendments during the 2009-10 fiscal year to increase the budgeted beginning fund balance of the General Fund, using reasonable projections of beginning fund balance budget amounts may help the District in monitoring its activities and related costs during the budget year.
- At June 30, 2010, prior to Board approval of the final budget amendments, the District had budget overexpenditures, totaling \$100,058.71, in 11 functional expenditure categories in the General Fund; overexpenditures, totaling \$109,322.48, in 5 functional expenditure categories in the Special Revenue - Other Fund; and overexpenditures, totaling \$48,506.45, in 2 functional expenditure categories in the Special Revenue – ARRA Economic Stimulus Fund. Although the overexpenditures were resolved by Board approval of the final budget amendments, the final budget amendments occurred 142 days after June 30, 2010, contrary to Board policy.
- Contrary to State Board of Education Rule 6A-1.008, FAC, and Board Policy 6.107, the Board was not provided monthly financial statements during the first half of the 2009-10 fiscal year. In January 2010, monthly financial reporting to the Board began with the November 2009 financial statements and continued through the remainder of the fiscal year. Without monthly financial statements, Board members may have limited understanding of the financial condition of the District, potentially leading to instances of financial mismanagement, authorizing purchases when funds are not available, and not identifying or remedying critical budget shortfalls in a timely manner. Monthly financial statements that provide practical and understandable summary financial information, such as total revenues and expenditures by fund, projected and revised student enrollment counts and effects of such revisions, and current anticipated ending fund balance amounts, would allow the Board to timely monitor the District's financial condition and provide information for financial decision-making.

A similar finding was noted in our report No. 2010-146.

Recommendation: Procedures should be enhanced to ensure that expenditures are limited to budgeted amounts as required by State law and rules. In addition, the Board should establish policies designed to ensure that any revisions to the budget are made in accordance with the Board's directives and timely approved by the Board. Also, the District should provide accurate, practical, and understandable monthly financial information to the Board in a timely manner to enable the Board to properly monitor the District's overall financial condition.

Finding No. 3: Information Technology – Access Controls

The implementation of separation of duties by management eliminates the possibility for a single employee to subvert a critical process. An appropriate separation of duties is typically enforced through system access privileges that restrict employees to performing only those system functions that are necessary for their job duties.

We reviewed the access privileges to the finance application and identified two Finance Department employees who had the ability to add or update vendor and purchase order information, as well as process invoices for payment. While our audit tests did not disclose any errors or fraud involving vendor payments, absent controls to fully compensate for the above mentioned incompatible duties, these access privileges permitted the employees to perform

incompatible duties increasing the risk of unauthorized or erroneous vendor payments that may not be timely detected. District personnel indicated that the access privileges were necessary for the employees' job duties and, in July 2010, the chief financial officer began reviewing and approving each warrant register and an employee independent of the Finance Department began comparing vendor checks to the approved warrant registers, approved purchase orders, and invoices prior to payment.

Recommendation: **The District should continue its efforts to enhance controls over the vendor payment process to adequately safeguard District resources.**

ADDITIONAL MATTERS

Finding No. 4: 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. Also, Section 218.503(3), Florida Statutes, provides that the Commissioner of Education may determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition. If State assistance is needed, the district school board is considered to be in a state of financial emergency. On April 22, 2009, FDOE appointed a three-member financial emergency board to provide support and financial oversight to the District, pursuant to Section 218.503(3), Florida Statutes.

To improve the financial condition of the General Fund during the 2009-10 fiscal year, District procedures included the receipt of funds through the American Recovery and Reinvestment Act, the reduction of certain positions, limiting expenditures based on necessity, and other cost reduction measures. Through these procedures, the District increased the General Fund unreserved fund balance from a deficit \$688,816.29 at June 30, 2009, to a positive balance of \$308,460.31 at June 30, 2010, representing 3.4 percent of General Fund revenues. However, the District may be required to reduce its General Fund unreserved fund balance to repay certain questioned costs totaling \$531,288.85. Such amounts include Federal program questioned costs totaling \$144,100.18, as noted in our report No. 2007-121; \$102,537.20, as noted in our report No. 2008-076; and \$284,651.47 as noted in our Federal Awards Finding No. 1.

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. 5: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

We selected 22 instructional personnel and 3 school administrators to determine whether performance assessments for these employees were prepared in accordance with Section 1012.34(3), Florida Statutes. We determined that performance assessments for 3 of the 22 instructional personnel were not prepared, according to District personnel, because of time constraints. Our review of performance assessments for the remaining 19 instructional personnel and 3 school administrators disclosed that the District's annual performance assessment procedures could be improved, as follows:

- District records did not demonstrate that instructional personnel and school administrators performance assessments were based primarily on student performance. District personnel indicated that since receipt of the FCAT scores was delayed, the District prepared instructional personnel and school administrator evaluations considering other classroom performance measures. However, District records did not correlate these other measures to the employees' performance assessments, such as providing a numeric or percentage indicator that would directly link student achievement and employee performance, and District records did not evidence any attempts, after receipt of the FCAT scores, to use the scores as a basis to assess employee performance.
- Supervisory personnel did not consistently use a standard performance assessment form for instructional personnel and school administrators. As a result, District records did not always evidence that the performance assessments gave consideration to the employees' ability to maintain discipline, ability to plan and deliver instruction and use of technology in the classroom, and ability to evaluate instructional needs, contrary to Section 1012.34(3)(a), Florida Statutes. For example, 10 of the 22 performance assessments we reviewed did not include consideration of the ability to maintain appropriate discipline; 7 did not include consideration of the ability to plan and deliver instruction; 4 did not include consideration of the use of technology; and 5 did not include consideration of the ability to evaluate instructional needs.
- Performance assessment forms for 2 school administrators and 2 instructional personnel were not signed by the employee or the evaluator.

Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: **The District should ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.**

Finding No. 6: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the District to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. Board Policy 6.112 provides that salary schedules must include provisions for differentiated pay in accordance with Florida Statutes and may include provisions for performance-based pay. However, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule for instructional personnel and school-based administrators and the union contract for instructional personnel provided pay levels based on factors such as job classifications, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** Although the instructional personnel salary schedule did not correlate employee performance to compensation, the union contract evidenced consideration of performance pay based on improved student performance measured by the FCAT, attaining a school grade of no less than a B, and an overall exemplary performance assessment, contingent on adequate funding by the Legislature. However, District personnel indicated that performance pay was not awarded for the 2009-10 fiscal year. As such, contrary to Section 1012.22(1)(c)2., Florida Statutes, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics, critical teacher shortage areas, and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators.** District personnel indicated that the school-based administrators' compensation, due to the District's financial status, was based on the administrative classifications (e.g., each principal paid the same as other principals; and each assistant principal the same as other assistant principals). District personnel further indicated the salary schedule for these administrators evidenced consideration of differentiated pay for additional responsibilities and level of job performance difficulties because principals' salaries were more than those of assistant principals. However, the salary schedule did not evidence

consideration of differentiated pay based on school demographics and critical shortage areas, contrary to Section 1012.22(1)(c)4., Florida Statutes.

District personnel indicated that due to the financial condition of the District, the salaries reflected in the salary schedule did not change from the prior year, nor was there any consideration for a more complex salary schedule. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 7: 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 is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District obtained SSNs on various forms such as enrollment, volunteer, and employment applications. However, the District did not provide parents, legal guardians, or middle and high school volunteers with notices identifying the purpose for the SSN collection. In addition, the notices provided to employees and elementary school volunteers did not identify the specific Federal or State law governing the collection, use, or release of the SSN or whether collection of the SSN was authorized or mandatory under Federal or State law.

District personnel indicated that the above noncompliance areas occurred due to oversights. Subsequent to our inquiry, the District updated the employment application provided to individuals who complete employment applications at the human resource office to include a statement identifying the specific Federal or State law governing the SSN collection. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2010-146.

Recommendation: The District should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.

Finding No. 8: McKay Scholarship Program

Pursuant to Section 1002.39, Florida Statutes, the John M. McKay Scholarships for Students with Disabilities Program (Program) provides funding to parents of eligible students with disabilities for their children to attend an eligible private school, or the opportunity for their children to attend a public school other than the one assigned. Further, Section 1002.39(5)(a), Florida Statutes, provides that by April 1 of each year, the District must inform the parent of these education options and the availability of the Florida Department of Education's telephone hotline and Web site for additional Program information, and offer that parent an opportunity to enroll the student in another public school within the district. During the 2009-10 fiscal year, the District did not provide any scholarships for the Program.

In response to our inquiries, District personnel provided a sample copy of a letter, dated March 16, 2010, that they indicated was mailed to parents of 264 students with disabilities notifying them of the options available under the McKay Scholarship Program, which included the required information. Furthermore, District personnel indicated that the District provided the letters to parents during individual education plan (IEP) meetings. However, because of oversights, the District did not maintain documentation identifying the individuals included in the mailing, and documentation was not available to evidence parents were notified of the options available under the McKay Scholarship program at the IEP meetings. While there is no statutory requirement for the District to maintain these records, without such records, the District is limited in its ability to demonstrate that parents were properly notified.

Recommendation: The District should enhance its procedures to document its notifications to parents of eligible students with disabilities of the educational opportunities provided by the John M. McKay Scholarships for Students with Disabilities Program.

Finding No. 9: Student Diplomas

For the 2009-10 fiscal year, Jefferson County Middle/High School had 38 graduates who received diplomas. As similarly noted in our report No. 2010-146, our review of student graduation and diploma processing disclosed that improvements could be made in controls over student diplomas, as follows:

- The written agreement in place with the printing company did not indicate the individual authorized to order diplomas. This deficiency occurred, in part, because personnel did not understand the importance of establishing these responsibilities in an agreement. Without a written agreement to limit employees who can order diplomas, there is an increased risk that diplomas may be fraudulently used.
- Although the bookkeeper e-mailed a copy of the diploma order to the printing company and the principal, District records did not evidence the principal's approval of the order. Without supervisory approval of diploma orders, there is an increased risk that unauthorized diplomas could be ordered.
- Our tests of 18 diploma recipients disclosed that documentation was not available to evidence that 3 of the recipients were eligible to graduate. For one student, a physical education course was incorrectly used to meet the required one-half credit life management course work, and District records did not evidence the basis upon which the remaining two students were eligible to graduate. One of these students lacked one and one-half credits of required course work and the other student lacked two credits of required course work.

Recommendation: The District should strengthen controls over diploma processing to ensure that student diplomas are only ordered for and distributed to those who meet the eligibility requirements for graduation.

Finding No. 10: 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 2009-081, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, 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 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. FDOE procedures for reporting instructional hours provide that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported on the day after the last date of attendance.

The District reported 24,127 adult general education hours to FDOE for the 2009-10 fiscal year. Our review of the District's reporting of adult general education courses disclosed the following:

- Classes are held five days each week with a maximum of five contact hours per day. Due to establishing the incorrect total class hours in the master class schedule, the District reported approximately eight hours per day for students enrolled for fall 2009 and approximately six hours per day for students who were only enrolled in five classes for spring 2010. As a result, the District overreported adult general education course hours by approximately 4,500 and 1,700 hours for Fall 2009 and Spring 2010, respectively.
- Our review of the hours reported for 10 students enrolled in 47 adult general education classes disclosed the District overreported approximately 113 enrollment hours for 3 students that had six or more consecutive absences. Although the District withdrew students for nonattendance, the District did not report the withdrawal date as the date after the last date of attendance.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important such data be submitted correctly. A similar finding was noted in our report No. 2010-146.

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

Finding No. 11: Information Technology – Security Awareness Training Program

The District had not implemented a comprehensive security awareness training program to apprise new employees of, or reemphasize to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems. Although the District did have a Terms and Conditions Agreement that covered, among other things, appropriate Internet usage, e-mail messages, security of network resources, and the confidentiality of passwords, the Agreement was only signed by instructional personnel. Additionally, the District did not have a comprehensive security awareness training program to facilitate all employees' ongoing education and training on security responsibilities, including acceptable

and prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information. A comprehensive security awareness training program would decrease the risk that the District's IT resources may be unintentionally compromised by employees while performing their assigned duties. A similar finding was noted in our report No. 2010-146. In response to our inquiry, District management indicated that personnel will sign a terms and conditions agreement annually, beginning in the 2010-11 fiscal year.

Recommendation: To minimize misuse of IT resources, the District should promote security awareness through a comprehensive training program to ensure that all employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. Additionally, the District should require all employees to acknowledge their understanding and acceptance of security-related responsibilities on an annual basis.

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

Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. As similarly noted in previous audits of the District, most recently in our report No. 2010-146, the District still lacked written policies and procedures for the following IT functions:

- Administering user identification codes (IDs), administrator IDs, administrator passwords, guest accounts, and security devices (such as firewalls and routers).
- Changing or deleting vendor-supplied passwords upon installation.
- Resetting user passwords, including positive identification of the user.
- Prohibiting administrator rights on the workstations of end users.
- Revoking access privileges of former or reassigned employees, consultants, and vendors.
- Removing confidential information from consultant or vendor equipment.
- Defining responsibilities, access privileges, and activities for network, database, and security administrators and help desk staff.
- Reporting suspected, and responding to actual, security incidents.

Without written policies and procedures, the risk is increased that District 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 IT functions described above.

Finding No. 13: Information Technology – Disaster Recovery Plan

The Panhandle Area Educational Consortium (PAEC) provides various programs and services, including IT services, to member districts. PAEC utilizes the Northwest Regional Data Center for processing various administrative application systems. The Board entered into a reciprocal disaster recovery agreement with 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 IT operations.

The District had established a Disaster Recovery Plan and assigned responsibilities for carrying out disaster recovery activities to particular individuals. However, as similarly noted in previous audits of the District, most recently in our report No. 2010-146, the District had not tested its Disaster Recovery Plan, and it was not comprehensive and did not include the following key recovery control elements:

- Prioritization of critical operations and data;
- Provisions for backup personnel; and
- Documentation of 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; a list of backup personnel so that the Plan is not dependent upon any one individual; and provide contingencies for service interruptions with Northwest Regional Data Center. In addition, the Disaster Recovery Plan should be tested annually.**

Finding No. 14: Information Technology – Network and Application Access and Authorization

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in previous audits of the District, most recently in our report No. 2010-146, certain security controls related to network and application access and authorization needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to network and application access and authorization, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: **The District should improve security controls related to network and application access and authorization to ensure the continued confidentiality, integrity, and availability of District data and IT resources.**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Special Education Cluster (CFDA No. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA)

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: \$284,651.47

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be for certain reasons such as departure of special education

personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

The District did not have procedures to monitor its compliance with the maintenance of effort requirements during the 2009-10 fiscal year, and District records indicated that the State and local expenditures, in total and average per capita, decreased from the 2008-09 fiscal year to the 2009-10 fiscal year, as shown below:

Source	Fiscal Years		Difference	Amounts
	2008-09	2009-10		
State and Local Expenditures for Special Education Services	\$ 924,197.76	\$ 636,071.86	\$ 288,125.90	\$ 288,125.90
Full-Time Equivalent (FTE) Enrollment in Special Education	266	265	1	
Average Expended Per Capita (FTE)	\$ 3,474.43	\$ 2,400.27	\$ 1,074.16	
Allowance for Decrease in FTE (1 FTE Decrease X \$3,474.43 Average Expended for 2008-09 Fiscal Year)				(3,474.43)
Deficiency in Expenditures of State and Local Resources				\$ 284,651.47

District records did not evidence that the District met a qualified exemption from the maintenance of effort requirement. Therefore, the deficiency in maintenance of effort from State and local funds totaling \$284,651.47 represents questioned costs subject to disallowance by the grantor. Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services, and the grantor may reduce future Special Education program awards.

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (Florida Department of Education) how the District complied with the Federal maintenance of effort requirement, or restore \$284,651.47 to the Special Education programs.

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Special Education Cluster (CFDA Nos. 84.027 and 84.391 - ARRA) and Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Allowable Costs/Cost Principles – Compensation of Personnel Services. 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. 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 (PARS) 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 Title I and Special Education programs, totaling approximately \$738,000 and \$546,000, respectively. Of these amounts, we tested expenditures, totaling \$535,068.16 and \$304,978.59, 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 Special Education program paid \$13,573.66 in salaries and benefits for an instructional assistant who worked 50 percent for the program from August 2009 through May 2010; however, the District did not maintain monthly PARs forms or equivalent documentation to support these costs. A PARs form was completed for the month of May 2010; however, the form did not contain the signature of the employee.
- The District did not obtain the required semiannual certification for two employees working solely on the Special Education program from February 2010 through May 2010 to support salaries and benefits expenditures totaling \$63,904.17.
- The District did not obtain the required semiannual certifications for eight employees working solely on the Special Education program to support salaries and benefits expenditures totaling \$198,597.08. Certifications signed by the employees' supervisors were completed; however the certifications were only for the month of May 2010.
- The Title I program paid \$101,582.41 in salaries and benefits for a Federal programs specialist and a secretary who worked 90 percent and 91 percent, respectively, for the program from July 2009 through June 2010; however, monthly PARs forms or equivalent documentation were not maintained to support these costs.

Absent the required semiannual certifications and PARs, 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.

Recommendation: The District should enhance its procedures to provide for the required semiannual certifications for employees who work solely on a single Federal program and monthly PARs for employees who work on multiple activities or cost objectives.

District Contact Person: Marcia Willis, Chief Financial Officer

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, 84.173, 84.391 - ARRA, and 84.392 - ARRA);

State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and

Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Reporting. Expenditures of grant funds are reported through the Florida Department of Education (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 preparing and submitting the Cash Advance and Reporting of Disbursements System (CARDS) Reconciliation, a report used to reconcile the Federal cash balance shown on FDOE's CARDS

Detail by Agency Report to the District's accounting records. The reconciliation of all cash advances and disbursements that occurred during the 2009-10 fiscal year was to be completed and submitted to FDOE by December 1, 2010.

Because new personnel were responsible for the reconciliation and unfamiliar with the process, the District had not prepared or filed the CARDS Reconciliation with FDOE as of January 18, 2011. While we were able to materially reconcile District records with the FDOE Federal cash advance balance shown on the CARDS 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.

Recommendation: The District should develop controls to improve its monitoring and reporting of Federal cash balances and expenditures to ensure that amounts reported to FDOE reconcile to the District's accounting records.

District Contact Person: Marcia Willis, Chief Financial Officer

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. 2010-146.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010*

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
2007-121 (2)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Allowable Costs/Cost Principles and Procurement	The District paid amounts in excess of those provided for in a psychological services contract; paid for an evaluation of a gifted student; and made some consultation services payments, which were initially unsupported, all of which resulted in questioned costs of \$875.	Partially corrected.	Control weakness has been corrected; however, the grantor has not made a final determination regarding questioned costs.
2007-121 (3)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Allowable Costs/Cost Principles and Procurement	The District paid another local educational agency for special education services pursuant to an interlocal agreement. Some of these amounts were not adequately supported, resulting in questioned costs of \$21,663.54.	Partially corrected.	Control weakness has been corrected; however, the grantor has not made a final determination regarding questioned costs.
2007-121 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Allowable Costs/Cost Principles	Salaries and benefits of two employees were paid from program funds absent documentation required by OMB <i>Circular A-87</i> . Based upon duties performed by the employees, \$12,153.64 represented questioned costs.	Partially corrected.	Control weakness has been corrected; however, the grantor has not made a final determination regarding questioned costs.
2007-121 (5)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, Earmarking	The District did not document that \$82,056 of Title I funds earmarked for supplemental educational services (SES) was expended for that purpose. Additionally, \$27,352 earmarked for these services was budgeted to be provided to SES providers that were not State-approved, resulting in total questioned costs of \$109,408.	Partially corrected.	Control weakness has been corrected; however, the grantor has not made a final determination regarding questioned costs.
2008-076 (1)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Allowable Costs/Cost Principles	Salaries and benefits of several employees, whose job functions either wholly or partially did not benefit Special Education Cluster programs, were paid from program funds. Based upon duties performed by the employees, \$102,537.20 represented questioned costs.	Partially corrected.	Control weakness has been corrected. During the 2010-11 fiscal year the Florida Department of Education sustained the questioned costs totaling \$102,537.20. Accordingly, the funds will be restored to the program.
2008-076 (3) 2008-076 (4) 2009-094 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Procurement-Suspension and Debarment, and Contract Provisions	Enhancements were needed in the District's procedures to determine whether vendors were suspended or debarred. In addition, enhancements were needed in the District's procedures to ensure that all contracts involving Federal grants include the required provisions.	Corrected.	

*JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010*

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
2010-146 (1)	Child Nutrition Discretionary Grants, Limited Availability (CFDA No. 10.579); Education Technology State Grants, Recovery Act (CFDA No. 84.386); Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); Special Education - Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394); and SFSF – Government Services, Recovery Act (CFDA No. 84.397) / Reporting and Special Tests and Provisions	Contrary to registration requirements for Federal awards, the District did not timely register in the Central Contractor Registration database.	Corrected.	
2010-146 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Procurement – Suspension and Debarment, and Contract Provisions	The District did not timely verify that two vendors, paid \$37,500 and \$36,520, respectively, were not suspended or debarred from receiving Federal Title I program moneys, and did not include Federally-required provisions in the vendors' contracts.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE

BILL BRUMFIELD
Superintendent of Schools
Phone: 850-342-0100
Suncom: 297-0100
Fax: 850-342-0108

Jefferson County School Board

575 South Water Street
MONTICELLO, FLORIDA 32344



March 4, 2011

Mr. David W. Martin, CPA
Auditor General
Office of the Auditor General
111 West Madison Street
Tallahassee, FL 32399

Dear Mr. Martin,

Attached is Jefferson County School District's response to the Preliminary and Tentative Audit Findings for the Fiscal Year ending June 30, 2010.

We appreciate the thoughtful and thorough review that you prepared for our District. As you can see from our responses, we have already taken some steps to correct or enhance the way we do business and based on your findings, we will continue to do so.

Sincerely,

William E. Brumfield
Superintendent

WEB/dl

Enclosures

BOARD MEMBERS

DISTRICT 1
EDWARD W. VOLLERTSEN

DISTRICT 2
SANDRA SAUNDERS

DISTRICT 3
SHIRLEY A. WASHINGTON

DISTRICT 4
MARIANNE ARBULU

DISTRICT 5
CHARLES BOLAND

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Jefferson County School District
Response to Preliminary & Tentative Audit Findings
For the Year Ended 6/30/2010

MATERIAL WEAKNESS

Finding No. 1: District procedures for reporting information on the financial statements and Schedule of Expenditures of Federal Awards could be improved.

Response: The District concurs with the finding. Some of the errors occurred because it was the first year that the CFO had prepared most of the AFR. Improvements are being made in the way financial information is tracked and processed prior to the end of the fiscal year, which will result in the completion of the AFR in a more timely and accurate manner.

SIGNIFICANT DEFICIENCIES

Finding No. 2: The District needed to enhance its budgetary process and ensure that monthly financial information is timely presented to the Board.

Response: The District concurs with the finding. Monthly financial reports are now presented to the Board. Amendments are being submitted to the Board on a more timely basis. Improvements are being made in the way financial information is tracked and processed, which will result in the District's ability to finalize year-end transactions in a more timely manner and comply with the Board Policy 6.106 deadlines for budget amendments.

Finding No. 3: Two employees in the finance department had incompatible information technology (IT) access privileges, and other controls did not compensate for these deficiencies.

Response: The District concurs with the finding. The District does not have a sufficient number of Finance Department staff to completely separate duties to ensure adequate internal controls over the processing of vendor payments. As a compensating control, the CFO reviewed and approved each warrant register; however, this review was not adequately documented. The CFO now signs off on the warrant register as documentation of her review. An additional compensating control has also been implemented, where an employee independent of the Finance Department began (in July, 2010) comparing vendor checks to the approved warrant registers, approved purchase orders, and invoices prior to payment, and signed off on the warrant register as documentation of the comparisons.

ADDITIONAL MATTERS

Finding No. 4: The District took action to significantly increase its General Fund unreserved fund balance; however, the District's General Fund unreserved fund balance

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

could be significantly reduced if Federal grantors require questioned program costs to be restored to the Federal programs.

Response: The District concurs with the finding. The District is working with the Florida Department of Education (FDOE) to resolve outstanding prior year questioned costs. On February 24, 2010, the District received an email from FDOE, stating that corrective measures have been taken by the District to resolve Finding #1, AG Report # 2008-076. It goes on to state that as part of the resolution, it is determined that the questioned costs in the amount of \$102,537.20, associated with finding #1 be restored to the program. The District has agreed to the restoration and will work with FDOE to complete the process. FDOE is still reviewing the other prior-year findings; however, the District has provided all requested information for resolution and believes, at this time, that the information should be satisfactory for resolution without further restoration of funds.

Finding No. 5: Performance assessments for instructional personnel and school administrators were not always consistent with Section 1012.34(3), Florida Statutes.

Response: The District concurs with the finding. The District is working with the Panhandle Area Educational Consortium (PAEC) to develop performance assessments of instructional personnel and school administrators that is primarily based on student performance.

Finding No. 6: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22 (1)(c)(2), Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)(4), Florida Statutes.

Response: The District concurs with the finding. The Jefferson County School Board will adopt formal policies and procedures ensuring that a portion of each instructional employee's compensation is based on performance and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules consistent with section 1012.22(1)(c). A new salary booklet will be presented to the Board for approval for the 2011-2012 school year.

Finding No. 7: 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.

Response: The District concurs with the finding. The written notification of social security number collection and usage policy for the Jefferson County School Board has been completed and updated. The policy provides for the review and evaluation of the collection of social security numbers (SSN), a written statement to individuals stating the purpose for collection of the numbers, and certification of compliance with the SSN requirements to the Legislation, as required by Section 119.071(5)(a), Florida Statutes.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

This policy will be placed in all student registration packets and at every site that social security numbers are collected.

Finding No. 8: District records did not evidence that the District made the required notifications to parents of eligible students of the opportunities provided by the John M. McKay Scholarships for Students with Disabilities Program.

Response: The District concurs with the finding. The Jefferson County School District will establish procedures to document its notification to parents of eligible students with disabilities of educational opportunities provided by the John M. McKay Scholarships for Students with Disabilities Programs. These procedures will include, but not be limited to, copies of the signed parent notification letters being kept on file in the Exceptional Student Education Office (ESEO) along with postage cost and mailing list information for letters and written statements of compliance from the ESEO regarding timely submission of these notifications. A copy of the procedures will be kept on file at the Superintendent's Office.

Finding No. 9: Controls over student diplomas could be enhanced.

Response: The District concurs with the finding. The Jefferson County School Board will strengthen controls over the diploma processing to ensure that student diplomas are ordered for and distributed to those who meet the eligibility requirements for graduation.

Finding No. 10: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Response: The District concurs with the finding, and will improve controls over the reporting of instructional contact hours for adult general education courses to the FDOE.

Finding No. 11: The District had not implemented a comprehensive security awareness training program to protect IT resources.

Response: The District concurs with the finding. The Director of Technical Support Services will develop a training video that will cover the importance of securing and protecting user names and passwords to assigned computers, wireless access points, GATEWAY, TERMS, and online educational applications.

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

Response: The District concurs with the finding. The Director of Technical Support Services will develop procedures currently being used to outline user level rights to computers, wireless access points, firewalls, GATEWAY, TSO, and TERMS.

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

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Response: The District concurs with the finding. The Jefferson County School Board Student Information System (SIS) and Financial System are hosted by Panhandle Area Education Consortium (PAEC) and the data is stored at Northwest Regional Data Center in Tallahassee. The District's initial Disaster Recovery Plan was developed with the understanding the Plan addressed the restoring of the network in the event of a disaster. The District now understands that the Plan is for restoring access to the SIS data and Financial data (TERMS) which are stored at Northwest Regional Data Center. With this understanding, the District's Disaster Recovery Plan for Informational Technology will be revised to reflect the current data storage setup. A test of the Plan is scheduled during April, 2011.

Finding No. 14: The District's IT security controls related to network and application access and authorization needed improvement.

Response: The District concurs with the finding. The security controls will be covered in the procedures in the response to Finding No. 12.

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: District records did not evidence that the District met the maintenance of effort requirements for Special Education programs, resulting in \$284,651.47 of questioned costs.

Response: The District concurs with the finding. The District believes that the intent of the requirement, that the level of service for Special Education programs be at least maintained from year to year, was met. However, acting on what the District thought was the direction of the Florida Department of Education's (FDOE) instructions for use of ARRA funds, some of the cost of maintaining this level of service was met with ARRA funds, rather than directly from the General Fund. Therefore, expenditures for Special Education programs paid directly from the General Fund did not meet the previous year's level. The District is taking steps, mostly moving qualified expenditures from the ARRA budgets to the General Fund, so that the MOE requirement is met for FY 2010/2011. The District will also make a formal request to the FDOE for some relief on the questioned costs.

Federal Awards Finding No. 2: Required documentation to support salary and benefit costs, totaling \$377,657.32 for 13 employees performing services for the Title I and Special Education programs was not maintained, contrary to Federal regulations.

Response: The District concurs with the finding. Just after the beginning of FY 2009-2010, the District was required by its Financial Oversight Board to reduce staff in the Finance Department. This resulted in the elimination of the only Finance Department staff member with experience in processing expenditures, cash draws and other

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

paperwork related to Federal grants. Because the position elimination was sudden and unplanned, the transition of duties to remaining staff was not ideal. This particular process was unintentionally omitted from the training during the transition, and resulted in the missing documentation. The proper procedures, to provide for the required semiannual certifications for employees who work solely on a single Federal program and monthly PARs for employees who work on multiple activities or cost objectives, have been reinstated.

Federal Awards Finding No. 3: Controls over monitoring and reporting of Federal cash balances and expenditures could be enhanced to ensure amounts reported to the Florida Department of Education and reconciled to the District's accounting records on a timely basis.

Response: The District concurs with the finding, and will work to improve its monitoring and reporting of Federal cash balances and expenditures.