

TAYLOR 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>
Mark A. Southerland	1
Brenda H. Carlton, Chair	2
Darrell Whiddon	3
Delton "Danny" Lundy, Vice Chair	4
Kenneth R. Dennis	5

Paul E. Dyal, 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 Nicole E. Cope and the audit was supervised by Karen L. Revell, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**TAYLOR COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be material weaknesses and a significant deficiency as summarized below.

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

MATERIAL WEAKNESSES

Finding No. 1: The District needed to improve its financial reporting procedures.

Finding No. 2: The District's bank account reconciliation procedures were not effective.

Finding No. 3: Controls over journal entries needed improvement, and District personnel made several erroneous and unsupported entries.

SIGNIFICANT DEFICIENCY

Finding No. 4: The District needed to enhance its budgetary process and ensure that monthly financial statements are timely provided to the Board.

ADDITIONAL MATTERS

Finding No. 5: 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 the District is unable to collect a questionable receivable from a grantor and if the District is required to restore questioned costs.

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

Finding No. 7: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 8: The Board had not adopted formal policies and procedures for 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. 9: District records did not evidence that the use of capital outlay tax levy proceeds for insurance premiums was consistent with Section 1011.71(5), Florida Statutes, resulting in \$115,359 of questioned costs.

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

Finding No. 11: District monitoring procedures over construction projects and related documents could be enhanced.

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

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

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; State Fiscal Stabilization Fund Cluster; and Head Start 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, except for the Title I, Part A Cluster program. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: Improvements were needed in the District's administration of supplemental educational services and transportation choice options for students attending schools identified as in need of improvement, and our audit disclosed \$152,525.80 of questioned costs.

Federal Awards Finding No. 2: District records did not evidence that the maintenance of effort requirements for the Title I program were met, resulting in \$79,634.02 of questioned costs.

Federal Awards Finding No. 3: District Federal programs cash management procedures needed improvement.

Federal Awards Finding No. 4: District procedures were not sufficient for monitoring and reporting Federal expenditures for grants received through FDOE, resulting in \$516,142.15 of potentially uncollectible receivables.

Federal Awards Finding No. 5: District procedures were not adequate to ensure that the status of Head Start cash was accurately reported and in agreement with District records.

Federal Awards Finding No. 6: Controls to ensure salary and benefit costs are appropriately charged to Federal programs could be enhanced.

Federal Awards Finding No. 7: The District paid \$100,166.32 for projector system installation services without following the competitive bidding process prescribed by Federal regulations and State Board of Education Rules.

Federal Awards Finding No. 8: District procedures for reporting ARRA – Special Education program expenditures needed improvement.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-170.

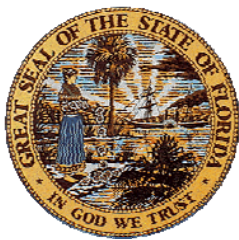
The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the 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 Taylor 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 17 percent of the assets and 29 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Taylor County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Taylor County District School Board as of June 30, 2010, and the respective changes in financial position and cash flows, where

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 42 through 45) 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 17, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Taylor County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 40.

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$1,623,630.35, which represents a 5.26 percent increase over the 2008-09 fiscal year.
- General revenues total \$28,532,637.33, or 88.38 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$3,752,034.56, or 11.62 percent of all revenues.
- Expenses total \$30,661,041.54. Only \$3,752,034.56 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$1,623,630.35.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$1,567,543.82 at June 30, 2010, or 7.68 percent of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; 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, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component unit – The District presents one separate legal entity in this report, the Taylor County Education Foundation, Inc. Although a legally separate organization, the component unit is included in this report

because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

The District adopts an annual appropriated budget for its governmental funds.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 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	\$ 8,907,691.81	\$ 8,321,360.51
Capital Assets	29,705,585.83	30,008,464.11
Total Assets	38,613,277.64	38,329,824.62
Long-Term Liabilities	3,410,140.61	3,090,006.88
Other Liabilities	2,707,960.76	4,368,271.82
Total Liabilities	6,118,101.37	7,458,278.70
Net Assets:		
Invested in Capital Assets	29,705,585.83	30,008,464.11
Restricted	4,360,324.40	3,465,798.22
Unrestricted Deficit	(1,570,733.96)	(2,602,716.41)
Total Net Assets	\$ 32,495,176.27	\$ 30,871,545.92

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

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

The 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:

	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 766,629.90	\$ 679,190.30
Operating Grants and Contributions	1,793,701.80	1,799,673.75
Capital Grants and Contributions	1,191,702.86	1,219,471.43
General Revenues:		
Property Taxes, Levied for Operational Purposes	8,446,862.28	7,491,158.19
Property Taxes, Levied for Capital Projects	2,033,544.68	2,471,718.42
Grants and Contributions Not Restricted to Specific Programs	17,530,457.09	18,756,772.81
Unrestricted Investment Earnings	44,183.66	(49,257.19)
Miscellaneous	477,589.62	393,379.17
Total Revenues	32,284,671.89	32,762,106.88
Functions/Program Expenses:		
Instruction	14,405,981.10	15,059,690.23
Pupil Personnel Services	1,567,292.38	1,539,038.50
Instructional Media Services	285,682.43	263,932.64
Instruction and Curriculum Development Services	1,191,373.13	910,827.83
Instructional Staff Training Services	167,393.97	398,318.74
Instruction Related Technology	171,440.47	173,502.85
School Board	335,430.09	260,711.32
General Administration	409,493.26	372,015.21
School Administration	1,747,452.99	1,629,163.93
Facilities Acquisition and Construction	551,727.39	536,344.12
Fiscal Services	393,980.40	355,257.59
Food Services	1,545,695.46	1,397,353.87
Central Services	359,325.57	321,327.99
Pupil Transportation Services	1,905,568.99	1,919,443.87
Operation of Plant	2,541,590.03	2,692,774.03
Maintenance of Plant	750,693.79	666,144.62
Administrative Technology Services	259,063.69	210,620.15
Community Services	711,490.66	438,475.11
Unallocated Interest on Long-Term Debt	7,542.40	27,350.72
Unallocated Depreciation Expense	1,277,422.65	1,296,561.49
Loss on Disposal of Capital Assets	75,400.69	1,916.64
Total Functions/Program Expenses	30,661,041.54	30,470,771.45
Increase in Net Assets	\$ 1,623,630.35	\$ 2,291,335.43

The largest revenue source is the State of Florida (40.41 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues decreased by \$1,226,315.72, or 6.54 percent, primarily due to a decrease in FEFP revenues from the State. The FEFP revenues decreased, in part, because student enrollment declined by 74 students.

Property taxes collected for operational purposes increased \$955,704.09, or 12.76 percent. This occurred primarily because of an increase in millage rates from 5.305 to 6.248 based on a Legislative shift of 0.25 mills from local capital improvement millage to operating millage, an increase of 0.443 mills in the State-mandated required local effort, and

adoption of a 0.25 critical operating needs millage. Property taxes collected for capital outlay projects decreased by \$438,173.74, or 17.73 percent, primarily due to the millage rate change from 1.75 to 1.5.

Instruction expenses represent 46.98 percent of total governmental expenses in the 2009-10 fiscal year. Instruction expenses decreased by \$653,709.13, or 4.34 percent, from the previous year due mainly from a reduction in staffing levels, resulting in a decrease in salaries and related benefits.

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 \$1,567,543.82, while the total fund balance is \$1,815,826.97. The unreserved fund balance increased by \$1,381,198.60, while the total fund balance increased by \$1,532,359.95 during the fiscal year. The key factor in this increase was the reduction in total expenditures by \$1,757,651.10, due primarily to reduced salary expenditures.

The Special Revenue – Other Fund has total revenues and expenditures of \$4,291,828.66 each, and the Special Revenue – ARRA Economic Stimulus Fund has total revenues and expenditures of \$1,917,976.52 each. The resources for these special revenue funds were mainly used for instruction. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,341,001.11, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance only increased by \$311,722.23 in the current fiscal year compared to an increase of \$1,221,999.44 in the prior fiscal year. The current fiscal year revenues were reduced as a result of the decrease in local property taxes and expenditures increased primarily because of a large computer purchase. It should be noted that \$163,900.34 has been encumbered for specific projects.

The Capital Projects – Other Fund has a total fund balance of \$453,782.71, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$232,759.82 in the current fiscal year mainly due to reductions in expenditures relating to the prior fiscal year Taylor County Middle School/Steinhatchee K-8 construction project. It should be noted that \$87,073 of fund balance has been encumbered for specific projects.

Proprietary Fund

Unrestricted net assets of the internal service fund total \$94,308.63 at June 30, 2010, a decrease of \$51,833.30. This decrease occurred primarily because of higher than expected insurance claims and administrative expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2009-10 fiscal year, the District amended its General Fund budget several times; however, final budgeted amounts were in line with original budgeted amounts.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$1,218,769.98, or 5.64 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$1,398,512.45.

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 \$29,705,585.83 (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 Notes 4 and 13 to the financial statements.

Long-Term Debt

At June 30, 2010, the District had no long-term bonded debt outstanding.

OTHER MATTERS OF SIGNIFICANCE

Approximately 55.64 percent of total General Fund revenues are from the State of Florida; therefore, economic conditions, which affect the economy both nationally and at the State level, will affect the general operating funds, and activities of the District. Changes in levels of tourism, immigration into the State of Florida, and unemployment may affect the State revenue streams, which in turn will affect District revenue streams.

Effective for the 2009-10 fiscal year, the District began receiving one-time appropriations under the American Recovery and Reinvestment Act of 2009. The intent of these funds is to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only two to three years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Taylor County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Vicki McManus, Finance Director, Taylor County District School Board, 318 North Clark Street, Perry, FL 32347.

BASIC FINANCIAL STATEMENTS

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

	Primary Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 6,079,161.74	\$ 32,942.00
Accounts Receivable	3,525.27	
Due from Other Agencies	2,569,788.90	
Prepaid Tuition		22,676.00
Investments	71,448.45	67,555.00
Inventories	183,767.45	
Capital Assets:		
Nondepreciable Capital Assets	1,403,786.44	
Depreciable Capital Assets, Net	28,301,799.39	
TOTAL ASSETS	\$ 38,613,277.64	\$ 123,173.00
LIABILITIES		
Salaries and Benefits Payable	\$ 1,447,745.76	\$
Payroll Deductions and Withholdings	352,555.72	
Accounts Payable	264,619.39	
Construction Contracts Payable	185,864.92	
Construction Contracts Payable - Retainage	11,185.70	
Due to Other Agencies	1,385.82	
Deferred Revenue	339,658.45	
Estimated Insurance Claims Payable	104,945.00	
Long-Term Liabilities:		
Portion Due Within One Year	295,895.22	
Portion Due After One Year	3,114,245.39	
Total Liabilities	6,118,101.37	
NET ASSETS		
Invested in Capital Assets	29,705,585.83	
Restricted for:		
State Required Carryover Programs	70,728.95	
Capital Projects	4,175,247.45	
Food Service	114,348.00	
Other Purposes		48,124.00
Unrestricted	(1,570,733.96)	75,049.00
Total Net Assets	32,495,176.27	123,173.00
TOTAL LIABILITIES AND NET ASSETS	\$ 38,613,277.64	\$ 123,173.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 14,405,981.10	\$ 369,662.45	\$	\$
Pupil Personnel Services	1,567,292.38			
Instructional Media Services	285,682.43			
Instruction and Curriculum Development Services	1,191,373.13			
Instructional Staff Training Services	167,393.97			
Instruction Related Technology	171,440.47			
School Board	335,430.09			
General Administration	409,493.26			
School Administration	1,747,452.99			
Facilities Acquisition and Construction	551,727.39			1,111,261.56
Fiscal Services	393,980.40			
Food Services	1,545,695.46	356,398.20	1,163,513.80	
Central Services	359,325.57			
Pupil Transportation Services	1,905,568.99	40,569.25	630,188.00	
Operation of Plant	2,541,590.03			
Maintenance of Plant	750,693.79			78,593.00
Administrative Technology Services	259,063.69			
Community Services	711,490.66			1,848.30
Unallocated Interest on Long-Term Debt	7,542.40			
Unallocated Depreciation Expense*	1,277,422.65			
Loss on Disposal of Capital Assets	75,400.69			
Total Primary Government	\$ 30,661,041.54	\$ 766,629.90	\$ 1,793,701.80	\$ 1,191,702.86
Component Unit				
Taylor County Education Foundation, Inc.	\$ 3,961.00	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

* 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			
\$	(14,036,318.65)	\$	
	(1,567,292.38)		
	(285,682.43)		
	(1,191,373.13)		
	(167,393.97)		
	(171,440.47)		
	(335,430.09)		
	(409,493.26)		
	(1,747,452.99)		
	559,534.17		
	(393,980.40)		
	(25,783.46)		
	(359,325.57)		
	(1,234,811.74)		
	(2,541,590.03)		
	(672,100.79)		
	(259,063.69)		
	(709,642.36)		
	(7,542.40)		
	(1,277,422.65)		
	(75,400.69)		
	(26,909,006.98)		
			(3,961.00)
	8,446,862.28		
	2,033,544.68		
	17,530,457.09	19,903.00	
	44,183.66	1,508.00	
	477,589.62		
	28,532,637.33	21,411.00	
	1,623,630.35	17,450.00	
	30,871,545.92	105,723.00	
\$	32,495,176.27	\$	123,173.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 2,158,664.86	\$	\$
Accounts Receivable	900.00	49.31	
Due from Other Funds	901,411.55		
Due from Other Agencies	120,035.36	883,187.31	330,698.23
Investments	14,298.51		
Inventories	86,588.50		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 3,281,898.78</u>	<u>\$ 883,236.62</u>	<u>\$ 330,698.23</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 1,112,484.62	\$ 167,480.93	\$ 120,700.41
Payroll Deductions and Withholdings	272,464.72	42,318.91	26,745.41
Accounts Payable	76,357.41	7,192.17	54,803.70
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	4,765.06	586,686.34	128,448.71
Due to Other Agencies		1,385.82	
Deferred Revenue		78,172.45	
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,466,071.81</u>	<u>883,236.62</u>	<u>330,698.23</u>
Fund Balances:			
Reserved for State Required Carryover Programs	70,728.95		
Reserved for Encumbrances	90,965.70		
Reserved for Inventories	86,588.50		
Unreserved, Reported in:			
General Fund	1,567,543.82		
Special Revenue Funds			
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,815,826.97</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,281,898.78</u>	<u>\$ 883,236.62</u>	<u>\$ 330,698.23</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
\$ 3,296,051.46 2,575.96	\$ 93,611.03	\$ 229,625.76	\$ 5,777,953.11 3,525.27 901,411.55 2,569,788.90 71,448.45 183,767.45
57,149.94	718,037.00	517,831.00	
		97,178.95	
<u>\$ 3,355,777.36</u>	<u>\$ 811,648.03</u>	<u>\$ 844,635.71</u>	<u>\$ 9,507,894.73</u>
\$ 14,776.25	\$ 85,193.62 11,185.70	\$ 47,079.80 11,026.68 668.26 100,671.30 190,378.04	\$ 1,447,745.76 352,555.72 153,797.79 185,864.92 11,185.70 910,278.15 1,385.82 339,658.45
	261,486.00		
<u>14,776.25</u>	<u>357,865.32</u>	<u>349,824.08</u>	<u>3,402,472.31</u>
163,900.34	87,073.00	49,838.21	70,728.95 391,777.25 86,588.50
		108,387.99	1,567,543.82
<u>3,177,100.77</u>	<u>366,709.71</u>	<u>336,585.43</u>	<u>108,387.99</u> <u>3,880,395.91</u>
<u>3,341,001.11</u>	<u>453,782.71</u>	<u>494,811.63</u>	<u>6,105,422.42</u>
<u>\$ 3,355,777.36</u>	<u>\$ 811,648.03</u>	<u>\$ 844,635.71</u>	<u>\$ 9,507,894.73</u>

TAYLOR 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	\$	6,105,422.42
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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.		29,705,585.83
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		94,308.63
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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:

Other Postemployment Benefits Payable	\$ 296,413.00	
Compensated Absences Payable	3,113,727.61	(3,410,140.61)

Total Net Assets - Governmental Activities	\$	<u>32,495,176.27</u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 55,547.59	\$ 1,739,919.55	\$ 20,304.03
Federal Through State and Local State	71,593.14 11,814,764.18	2,551,909.11	1,897,672.49
Local:			
Property Taxes	8,446,862.28		
Charges for Services - Food Service			
Miscellaneous	845,080.47		
Total Revenues	21,233,847.66	4,291,828.66	1,917,976.52
Expenditures			
Current - Education:			
Instruction	10,413,330.53	2,462,719.04	1,227,314.58
Pupil Personnel Services	980,001.08	382,536.37	180,742.49
Instructional Media Services	279,837.90		
Instruction and Curriculum Development Services	720,182.50	203,603.08	241,474.62
Instructional Staff Training Services	27,302.34	82,096.44	56,637.04
Instruction Related Technology	136,330.07		
School Board	331,984.10		
General Administration	248,964.50	104,366.58	51,391.26
School Administration	1,553,317.93	142,719.26	13,428.61
Facilities Acquisition and Construction	777.38		
Fiscal Services	386,408.70	508.00	
Food Services	2,752.77	12,305.10	47,327.72
Central Services	352,159.11		
Pupil Transportation Services	1,500,360.76	102,795.88	1,824.09
Operation of Plant	2,484,247.47	40,509.34	544.38
Maintenance of Plant	672,029.05		
Administrative Technology Services	203,236.56		
Community Services	69,708.88	640,785.50	
Fixed Capital Outlay:			
Facilities Acquisition and Construction	5,183.15	2,793.00	
Other Capital Outlay	26,569.18	114,091.07	97,291.73
Debt Service:			
Interest and Fiscal Charges	7,482.84		
Total Expenditures	20,402,166.80	4,291,828.66	1,917,976.52
Excess of Revenues Over Expenditures	831,680.86		
Other Financing Sources (Uses)			
Transfers In	905,475.71		
Insurance Loss Recoveries			
Transfers Out	(204,796.62)		
Total Other Financing Sources (Uses)	700,679.09		
Net Change in Fund Balances	1,532,359.95		
Fund Balances, Beginning	283,467.02		
Fund Balances, Ending	\$ 1,815,826.97	\$ 0.00	\$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		1,131,975.80	1,815,771.17
	464,048.30	768,127.56	5,653,150.54
			13,046,940.04
2,033,544.68			10,480,406.96
		356,398.20	356,398.20
26,258.33		1,278.99	872,617.79
2,059,803.01	464,048.30	2,257,780.55	32,225,284.70
13,401.00			14,116,765.15
			1,543,279.94
			279,837.90
			1,165,260.20
			166,035.82
32,136.52			168,466.59
			331,984.10
			404,722.34
			1,709,465.80
374,146.93		145,355.52	520,279.83
			386,916.70
5,450.38		1,463,707.33	1,531,543.30
			352,159.11
			1,604,980.73
			2,525,301.19
		74,233.75	746,262.80
52,628.61			255,865.17
			710,494.38
88,424.00	231,288.48	378,057.94	705,746.57
412,773.73		2,560.50	653,286.21
		59.56	7,542.40
978,961.17	231,288.48	2,063,974.60	29,886,196.23
1,080,841.84	232,759.82	193,805.95	2,339,088.47
76,968.91		27,827.71	1,010,272.33
59,387.19			59,387.19
(905,475.71)			(1,110,272.33)
(769,119.61)		27,827.71	(40,612.81)
311,722.23	232,759.82	221,633.66	2,298,475.66
3,029,278.88	221,022.89	273,177.97	3,806,946.76
\$ 3,341,001.11	\$ 453,782.71	\$ 494,811.63	\$ 6,105,422.42

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Net Change in Fund Balances - Governmental Funds \$ 2,298,475.66

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. (227,477.59)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (75,400.69)

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. (175,380.73)

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. (144,753.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (51,833.30)

Change in Net Assets - Governmental Activities \$ 1,623,630.35

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

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2010**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 301,208.63
Due From Other Funds	8,866.60
TOTAL ASSETS	\$ 310,075.23
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 110,821.60
Estimated Insurance Claims Payable	104,945.00
Total Liabilities	215,766.60
NET ASSETS	
Unrestricted	94,308.63
Total Net Assets	94,308.63
TOTAL LIABILITIES AND NET ASSETS	\$ 310,075.23

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

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2010**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues	\$ 2,036,743.11
Other Operating Revenues	43,964.49
Total Operating Revenues	2,080,707.60
OPERATING EXPENSES	
Insurance Claims	1,566,767.15
Insurance Premiums	480,108.17
Purchased Services	4,367.00
Administrative Expense	181,298.58
Total Operating Expenses	2,232,540.90
Operating Loss	(151,833.30)
Loss Before Transfers	
Transfers In	100,000.00
Change in Net Assets	(51,833.30)
Total Net Assets - Beginning	146,141.93
Total Net Assets - Ending	\$ 94,308.63

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

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2010**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Premiums	\$ 2,211,684.10
Cash Received from Other Operating Revenues	43,964.49
Cash Payments for Insurance Claims	(1,566,767.15)
Cash Payments for Premiums and Other Fees	(609,953.39)
Cash Payments for Administrative Expense	(181,298.58)
Cash Payments for Purchased Services	(4,367.00)
Net Cash Used by Operating Activities	(106,737.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from Other Funds	100,000.00
Net Decrease in Cash and Cash Equivalents	(6,737.53)
Cash and Cash Equivalents, Beginning	307,946.16
Cash and Cash Equivalents, Ending	\$ 301,208.63
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (151,833.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Due From Other Funds	174,940.99
Decrease in Accounts Payable	(129,845.22)
Total Adjustments	45,095.77
Net Cash Used by Operating Activities	\$ (106,737.53)

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 233,612.44</u>
LIABILITIES	
Internal Accounts Payable	<u>\$ 233,612.44</u>

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

**TAYLOR COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 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 Taylor County School District (District) is considered part of the Florida system of public education. The governing body of the school district is the Taylor County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Taylor County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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 Taylor County Education Foundation, Inc. (Foundation), which was formed to provide charitable and educational aid to the Board; to promote education; and to encourage research, learning, and the dissemination of information. Because the Board appoints all members of the Foundation's Board, and is able to impose its will on the Foundation, the Foundation is considered a component unit. An annual postaudit of the Foundation's financial statements is conducted by an independent certified public accountant, and the audit report is filed in the District's administrative office.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, 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 are allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period

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

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.

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

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

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

➤ **Deposits and Investments**

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

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 with SBA for participation in the Florida PRIME 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

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

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.

➤ **Inventories**

Inventories consist of expendable supplies, transportation supplies, and fuel held for consumption in the course of District operations. Inventories are stated at cost based on the last invoice price, which approximates the first-in, first-out basis, 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 straight-line method over the following estimated useful lives:

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

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. In the governmental fund financial statements, long-term obligations are not recognized as liabilities until due.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

➤ **State Revenue Sources**

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 allocations under the Classrooms First, and Classrooms for Kids programs. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the Classrooms First and Classrooms for Kids program funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The Board adopted the 2009 tax levy on September 8, 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

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procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

➤ **Budgetary Information**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- 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.

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➤ **Expenditures Over Appropriations in Individual Funds**

For the fiscal year ended June 30, 2010, expenditures exceed appropriations for the following individual funds:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
Pupil Personnel Services	\$ 972,910.07	\$ 980,001.08	\$ (7,091.01)
Instruction and Curriculum			
Development Services	578,705.09	720,182.50	(141,477.41)
Instruction Related Technology	118,417.38	136,330.07	(17,912.69)
Central Services	304,309.95	352,159.11	(47,849.16)
Pupil Transportation Services	1,462,795.83	1,500,360.76	(37,564.93)
Maintenance of Plant	490,901.38	672,029.05	(181,127.67)
Community Services	62,076.88	69,708.88	(7,632.00)
Transfers Out		204,796.62	(204,796.62)
Special Revenue - Other:			
Instruction and Curriculum			
Development Services	184,624.94	203,603.08	(18,978.14)
Fiscal Services		508.00	(508.00)
Pupil Transportation Services	92,715.15	102,795.88	(10,080.73)
Community Services	2,600.00	640,785.50	(638,185.50)
Special Revenue - ARRA Economic Stimulus:			
Pupil Personnel Services	157,132.95	180,742.49	(23,609.54)
Instruction and Curriculum			
Development Services	209,414.45	241,474.62	(32,060.17)
Instructional Staff Training	39,053.00	56,637.04	(17,584.04)
General Administration	49,941.82	51,391.26	(1,449.44)
School Administration	12,185.04	13,428.61	(1,243.57)
Food Services	43,002.23	47,327.72	(4,325.49)
Pupil Transportation Services	1,800.00	1,824.09	(24.09)
Operation of Plant		544.38	(544.38)
Capital Projects - Public Education Capital Outlay:			
Maintenance of Plant		74,233.75	(74,233.75)
Fixed Capital Outlay:			
Facilities Acquisition & Construction	110,020.79	319,930.94	(209,910.15)
Capital Projects - Local Capital Improvement:			
Instruction		13,401.00	(13,401.00)
Instruction Related Technology		32,136.52	(32,136.52)
Food Services		5,450.38	(5,450.38)
Administrative Technology Services		52,628.61	(52,628.61)
Transfers Out		905,475.71	(905,475.71)

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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 (1)	46 Day Average	\$ 74,882.83
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	71,448.45
Total Investments, Primary Government		\$ 146,331.28

Note 1: Investments are classified as cash equivalents for financial statement reporting purposes.

Interest Rate Risk

- The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- 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 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 does not have a formal investment policy that limits its investment choices.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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	\$ 856,163.41	\$	\$	\$ 856,163.41
Land Improvements - Nondepreciable	238,072.41			238,072.41
Construction in Progress	653,342.99	528,731.01	872,523.38	309,550.62
Total Capital Assets Not Being Depreciated	1,747,578.81	528,731.01	872,523.38	1,403,786.44
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	137,844.33	92,376.47		230,220.80
Buildings and Fixed Equipment	38,828,798.07	930,650.38		39,759,448.45
Furniture, Fixtures, and Equipment	5,495,809.42	640,264.65	562,695.36	5,573,378.71
Motor Vehicles	4,199,001.98		806,909.00	3,392,092.98
Audio Visual Materials and Computer Software	85,053.57	8,098.00		93,151.57
Total Capital Assets Being Depreciated	48,746,507.37	1,671,389.50	1,369,604.36	49,048,292.51
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	10,656.95	6,892.22		17,549.17
Buildings and Fixed Equipment	13,811,849.35	709,731.97		14,521,581.32
Furniture, Fixtures, and Equipment	3,725,313.53	551,845.51	522,459.41	3,754,699.63
Motor Vehicles	2,872,586.06	277,652.07	771,744.26	2,378,493.87
Audio Visual Materials and Computer Software	65,216.18	8,952.95		74,169.13
Total Accumulated Depreciation	20,485,622.07	1,555,074.72	1,294,203.67	20,746,493.12
Total Capital Assets Being Depreciated, Net	28,260,885.30	116,314.78	75,400.69	28,301,799.39
Governmental Activities Capital Assets, Net	\$ 30,008,464.11	\$ 645,045.79	\$ 947,924.07	\$ 29,705,585.83

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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 277,652.07
Unallocated	1,277,422.65
	<u>1,555,074.72</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,555,074.72</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 Notes	\$	\$1,250,000	\$1,250,000	\$

On October 7, 2009, the District obtained a revolving line-of-credit in the amount of \$1,250,000 from the Capital City Bank at a 3.89 percent fixed rate of return. Proceeds from the tax anticipation note were used to fund District operations until the receipt of ad valorem tax revenue. This loan was repaid by the District on December 23, 2009.

6. 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					
Compensated Absences Payable	\$ 2,938,346.88	\$ 558,695.81	\$ 383,315.08	\$ 3,113,727.61	\$ 295,895.22
Other Postemployment Benefits Payable	151,660.00	317,064.00	172,311.00	296,413.00	
Total Governmental Activities	<u>\$ 3,090,006.88</u>	<u>\$ 875,759.81</u>	<u>\$ 555,626.08</u>	<u>\$ 3,410,140.61</u>	<u>\$ 295,895.22</u>

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

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7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 901,411.55	\$ 4,765.06
Special Revenue:		
Other		586,686.34
ARRA Economic Stimulus		128,448.71
Nonmajor Governmental		190,378.04
Internal Service Fund	8,866.60	
Total	<u>\$ 910,278.15</u>	<u>\$ 910,278.15</u>

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 905,475.71	\$ 204,796.62
Local Capital Improvement	76,968.91	905,475.71
Nonmajor Governmental	27,827.71	
Internal Service Funds	100,000.00	
Total	<u>\$ 1,110,272.33</u>	<u>\$ 1,110,272.33</u>

The transfer to the General Fund was made to move restricted revenues to offset maintenance expenditures, property and casualty insurance premiums, and computer technician's salaries. The transfers to the Capital Projects funds were made for repayment of prior year unallowed expenditures. The transfer to the Internal Service Fund was made to supplement the health insurance plan.

8. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

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Because revenues of grants accounted for in the Special Revenue – Other and Special Revenue – ARRA Economic Stimulus Funds 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 and Special Revenue – ARRA Economic Stimulus Funds total \$167,743.59 and \$64.08, respectively, at June 30, 2010.

9. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 6,694,452.00
Categorical Educational Program - Class Size Reduction	2,881,715.00
Workforce Development Program	1,279,610.00
Gross Receipts Tax (Public Education Capital Outlay)	612,852.00
Voluntary Prekindergarten Program	354,193.28
Classrooms for Kids	322,980.00
Reading Programs	180,414.00
Classrooms First	130,743.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	123,279.56
Miscellaneous	466,701.20
Total	<u><u>\$ 13,046,940.04</u></u>

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

10. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.250	\$ 7,397,226.81
Basic Discretionary Local Effort	0.748	1,053,928.70
Critical Operating Needs	0.250	352,248.90
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,113,493.38
Total	<u><u>7.748</u></u>	<u><u>\$ 10,916,897.79</u></u>

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11. FLORIDA RETIREMENT SYSTEM

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

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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 \$1,742,530.83, \$1,629,379.16, and \$1,571,820.80, respectively, which were equal to the required contributions for each fiscal year. There were 40 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$115,322.31.

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.

12. 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 assumed to enroll in the Federal Medicare program for their primary coverage as soon as they

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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, 49 retirees received other postemployment benefits. The District provided required contributions of \$172,311 toward the annual OPEB cost, net of retiree contributions totaling \$197,463, which represents 1.8 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$147,738
Amortization of Unfunded Actuarial Accrued Liability	159,332
Interest on Normal Cost and Amortization	<u>12,181</u>
Annual Required Contribution	319,251
Interest on Net OPEB Obligation	4,853
Adjustment to Annual Required Contribution	<u>(7,040)</u>
Annual OPEB Cost (Expense)	317,064
Contribution Toward the OPEB Cost	<u>(172,311)</u>
Increase in Net OPEB Obligation	144,753
Net OPEB Obligation, Beginning of Year	<u>151,660</u>
Net OPEB Obligation, End of Year	<u><u>\$ 296,413</u></u>

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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	308,135	50.78%	151,660
2009-10	317,064	54.35%	296,413

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

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

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

The District's initial OPEB actuarial valuation as of October 1, 2007, used the individual entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 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 3.2 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent beginning October 1, 2008, reduced by .5 percent per year, to an ultimate rate of 5 percent after October 1, 2017. 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 18 years.

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

13. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Taylor Middle School / Child Development Center - Roofing, HVAC, Other Renovations			
Architect	\$ 92,088.97	\$ 74,714.90	\$ 17,374.07
Contractor	909,221.00	224,357.00	684,864.00
Total	<u>\$ 1,001,309.97</u>	<u>\$ 299,071.90</u>	<u>\$ 702,238.07</u>

14. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Taylor County District School Board has established self-insurance programs for its employee health and hospitalization coverage. For its other insurance coverage, the Board is a member of the Florida School Board Insurance Trust (Trust) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Trust. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Trust is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. If a member district withdraws or terminates participation in the Trust, and its claims exceed loss fund contributions from premiums paid, the Trust may request additional funds or return the open claims to the member district. The Board of Directors for the Trust is mainly composed of board members and a district-level business officer selected from participating districts. The District reports financial transactions related to these insurance coverages in the General Fund.

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

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

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

A liability in the amount of \$104,945 was reported in the internal service fund at June 30, 2010, to cover estimated incurred, but not reported, insurance claims payable.

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2008-09	\$ 100,173	\$ 1,261,485	\$ (1,256,713)	\$ 104,945
2009-10	104,945	1,566,767	(1,566,767)	104,945

15. OTHER LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. However, the District may be required to reduce its General Fund unreserved fund balance because the District may not be able to collect \$516,142.15 reported as due (receivable) from the Florida Department of Education. The receivable represents District unreimbursed expenditures for closed Federal programs.

In addition, disallowed claims could become a liability of the General Fund or other applicable funds. The District has unresolved questioned costs from the 2008-09 and 2009-10 fiscal years totaling \$212,376.71 and \$347,518.82, respectively. If these questioned costs noted by the auditor were disallowed by the applicable oversight agencies, these amounts would have a material effect on the District's overall financial position.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 101,025.00	\$ 101,025.00	\$ 55,547.59	\$ (45,477.41)
Federal Through State and Local	96,440.00	143,091.31	71,593.14	(71,498.17)
State	12,116,516.30	11,871,903.99	11,814,764.18	(57,139.81)
Local:				
Property Taxes	8,400,894.00	8,363,233.00	8,446,862.28	83,629.28
Miscellaneous	412,370.00	412,370.00	845,080.47	432,710.47
Total Revenues	21,127,245.30	20,891,623.30	21,233,847.66	342,224.36
Expenditures				
Current - Education:				
Instruction	10,759,704.74	10,746,087.14	10,413,330.53	332,756.61
Pupil Personnel Services	972,910.07	972,910.07	980,001.08	(7,091.01)
Instructional Media Services	288,986.51	288,986.51	279,837.90	9,148.61
Instruction and Curriculum Development Services	578,705.08	578,705.09	720,182.50	(141,477.41)
Instructional Staff Training Services	124,312.00	124,312.00	27,302.34	97,009.66
Instruction Related Technology	118,417.38	118,417.38	136,330.07	(17,912.69)
School Board	342,488.60	342,488.60	331,984.10	10,504.50
General Administration	292,431.67	292,431.68	248,964.50	43,467.18
School Administration	1,557,369.26	1,557,369.26	1,553,317.93	4,051.33
Facilities Acquisition and Construction	858,841.22	858,841.22	777.38	858,063.84
Fiscal Services	512,098.22	512,098.21	386,408.70	125,689.51
Food Services	3,022.08	3,022.08	2,752.77	269.31
Central Services	304,309.95	304,309.95	352,159.11	(47,849.16)
Pupil Transportation Services	1,465,495.83	1,462,795.83	1,500,360.76	(37,564.93)
Operation of Plant	2,656,510.34	2,642,010.34	2,484,247.47	157,762.87
Maintenance of Plant	491,836.13	490,901.38	672,029.05	(181,127.67)
Administrative Technology Services	204,129.83	204,129.83	203,236.56	893.27
Community Services	62,076.88	62,076.88	69,708.88	(7,632.00)
Fixed Capital Outlay:				
Facilities Acquisition and Construction		5,183.15	5,183.15	
Other Capital Outlay		26,569.18	26,569.18	
Debt Service:				
Interest and Fiscal Charges	27,291.00	27,291.00	7,482.84	19,808.16
Total Expenditures	21,620,936.79	21,620,936.78	20,402,166.80	1,218,769.98
Excess (Deficiency) of Revenues Over Expenditures	(493,691.49)	(729,313.48)	831,680.86	1,560,994.34
Other Financing Sources (Uses)				
Transfers In	999,698.00	918,448.00	905,475.71	(12,972.29)
Transfers Out			(204,796.62)	(204,796.62)
Total Other Financing Sources (Uses)	999,698.00	918,448.00	700,679.09	(217,768.91)
Net Change in Fund Balances	506,006.51	189,134.52	1,532,359.95	1,343,225.43
Fund Balances, Beginning	228,180.00	228,180.00	283,467.02	55,287.02
Fund Balances, Ending	\$ 734,186.51	\$ 417,314.52	\$ 1,815,826.97	\$ 1,398,512.45

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)
\$ 1,119,040.00	\$ 1,119,040.00	\$ 1,739,919.55	\$ 620,879.55	\$	\$	\$ 20,304.03	\$ 20,304.03
2,920,750.00	2,920,750.00	2,551,909.11	(368,840.89)	1,924,937.03	1,924,937.03	1,897,672.49	(27,264.54)
4,039,790.00	4,039,790.00	4,291,828.66	252,038.66	1,924,937.03	1,924,937.03	1,917,976.52	(6,960.51)
2,631,303.31	2,547,539.96	2,462,719.04	84,820.92	1,309,376.56	1,291,429.56	1,227,314.58	64,114.98
507,433.95	507,433.95	382,536.37	124,897.58	157,132.95	157,132.95	180,742.49	(23,609.54)
200,602.66	184,624.94	203,603.08	(18,978.14)	209,414.45	209,414.45	241,474.62	(32,060.17)
92,276.65	91,178.83	82,096.44	9,082.39	39,053.00	39,053.00	56,637.04	(17,584.04)
56,176.87	57,274.69		57,274.69				
133,793.61	133,793.61	104,366.58	29,427.03	49,941.82	49,941.82	51,391.26	(1,449.44)
180,610.67	180,610.67	142,719.26	37,891.41	12,185.04	12,185.04	13,428.61	(1,243.57)
		508.00	(508.00)	23,686.25	23,686.25		23,686.25
15,860.00	15,860.00	12,305.10	3,554.90	122,346.96	43,002.23	47,327.72	(4,325.49)
92,715.15	92,715.15	102,795.88	(10,080.73)	1,800.00	1,800.00	1,824.09	(24.09)
126,027.13	108,884.13	40,509.34	68,374.79			544.38	(544.38)
390.00	390.00		390.00				
2,600.00	2,600.00	640,785.50	(638,185.50)				
	2,793.00	2,793.00					
	114,091.07	114,091.07			97,291.73	97,291.73	
4,039,790.00	4,039,790.00	4,291,828.66	(252,038.66)	1,924,937.03	1,924,937.03	1,917,976.52	6,960.51
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

**TAYLOR 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

TAYLOR 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	\$ 263,407.78	\$
National School Lunch Program	10.555	300	751,795.92	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	81,660.84	
Total Child Nutrition Cluster			1,096,864.54	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	71,680.00	
Total United States Department of Agriculture			1,168,544.54	
United States Department of Education:				
Direct:				
Federal Pell Grant Program	84.063	N/A	636,707.15	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	707,461.86	
Special Education - Preschool Grants	84.173	267	30,199.80	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	376,728.24	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	9,956.00	
Leon County District School Board:				
Special Education - Preschool Grants	84.173	None	23,460.50	
Total Special Education Cluster			1,147,806.40	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	999,584.70	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	382,653.49	
Total Title I, Part A Cluster			1,382,238.19	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121,122	17,788.79	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	18,158.60	
Total Educational Technology State Grants Cluster			35,947.39	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	932,446.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	91,990.29	3,016.00
Total State Stabilization Fund Cluster			1,024,436.29	3,016.00
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	44,917.56	
Career and Technical Education - Basic Grants to States	84.048	151, 161	197,614.21	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	08-202-VH308	24,941.83	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	5,458.51	
Even Start - State Educational Agencies	84.213	219	201,705.87	
Twenty-First Century Community Learning Centers	84.287	244	48,171.37	48,171.37
Reading First State Grants	84.357	211	25.28	
Rural Education	84.358	110	80,852.88	
Improving Teacher Quality State Grants	84.367	224	206,079.72	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	14,059.87	
Total Indirect			4,414,255.37	51,187.37
Total United States Department of Education			5,050,962.52	51,187.37
United States Department of Health and Human Services:				
Direct:				
Head Start Cluster:				
Head Start	93.600 (3)	N/A	1,055,041.03	
ARRA - Head Start	93.708 (4)	N/A	20,304.03	
Total Direct			1,075,345.06	

TAYLOR COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

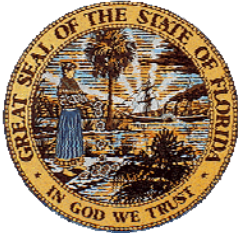
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect:				
Early Learning Coalition of the Big Bend Region, Inc.:				
CCDF Cluster:				
Child Care and Development Block Grant	93.575	None	\$ 18,321.19	\$
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	15,259.13	
Total CCDF Cluster			33,580.32	
Temporary Assistance to Needy Families	93.558	None	17,583.84	
Social Services Block Grant	93.667	None	40.96	
Total Indirect			51,205.12	
Total United States Department of Health and Human Services			1,126,550.18	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	51,947.59	
Total Expenditures of Federal Awards			\$ 7,398,004.83	\$ 51,187.37

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. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include \$603,191.41 for grant number/program year 04CH0506/16 and \$451,849.62 for grant number/program year 04CH0506/17.

(4) Head Start. Expenditures include \$20,304.03 for grant number/program year 04SE0506/01.



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Taylor County District School Board as of and for the fiscal year ended June 30, 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Taylor County District School Board's financial statements. For the discretely presented component unit, 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 through 3 to be material weaknesses.

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 deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 4 to be a significant deficiency.

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.

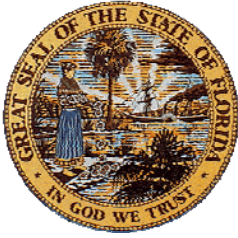
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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 17, 2011



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS 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 Taylor 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, and Earmarking that are applicable to its Title I, Part A 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 through 8.

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 considered 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 through 8 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 17, 2011

**TAYLOR 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: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be a material weakness(es)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be a material weakness(es)? Yes

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs except for the Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA), which was qualified.

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

Identification of major programs: 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); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397-ARRA); and Head Start Cluster (CFDA Nos. 93.600 and 93.708 – ARRA)

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

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

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 (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is by preparing its annual financial report. As such, District personnel should ensure that the report is accurate so that users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Although the annual financial report (AFR) was due to FDOE on September 13, 2010, the District received an extension from FDOE to submit the annual financial report on September 23, 2010, and hired a consultant to assist with preparation of the AFR. However, the District did not submit the completed AFR to FDOE until November 16, 2010.

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, disclosed that the District needed to improve its financial reporting procedures. For example:

Fund Financial Statements:

- As further discussed in Financial Statement Finding No. 2, the District did not properly reconcile its bank account balances to the general ledger control accounts. Through the application of extended audit procedures we were able to identify net overstatements totaling approximately \$466,000 of cash for the special revenue funds, General Fund, Internal Service Fund, and capital projects funds, as follows:
 - In the Special Revenue – Other Fund, the District overstated cash by approximately \$456,000, understated due from other agencies by approximately \$502,000, and understated deferred revenue and other accounts by a net amount of approximately \$46,000. These financial reporting errors occurred mainly because the District did not properly reconcile FDOE records to the District's accounting records, and did not properly account for Federal Head Start program cash, as discussed in Federal Awards Finding Nos. 4 and 5, respectively.
 - In the General Fund, the District did not properly identify and consider certain year-end accruals and made other errors, resulting in overstatements to workers' compensation expenditures, local tax revenues, cash, and other accounts (e.g., payroll deductions and withholdings payable, etc.) by a net amount of approximately \$143,000. Similar errors occurred in the Internal Service Fund, resulting in cash and other account (e.g., estimated claims liability, etc.) net understatements of \$110,000 each.

- In the Capital Projects – Other Fund, the District did not properly allocate cash receipts for State capital outlay appropriations, resulting in understatements in cash and net overstatements in other accounts (e.g., expenditures, etc.) of approximately \$93,000 each.
 - In the Capital Projects – Local Capital Outlay Fund, the District did not properly identify certain transfers out and local revenues, resulting in understatements of transfers out and local revenue by \$85,000 and \$31,000, respectively; an overstatement of cash by \$62,000; and other accounts (e.g., investments, etc.) net understatements of \$8,000.
 - In the Special Revenue – ARRA Economic Stimulus Fund, there were miscellaneous net cash overstatements, totaling approximately \$8,000.
- District procedures did not properly identify and report construction contracts payable and construction contracts payable - retainage at year-end, resulting in net overstatements of fixed capital outlay expenditures totaling approximately \$205,000 in the Capital Projects – Other Fund. These reporting errors occurred because the District did not properly identify amounts due to both the architect and contractor for work completed as of June 30, 2010.
 - The District did not properly identify and consider certain year-end accruals, resulting in overstatements of due from other funds and premium revenue of approximately \$170,000 each in the Internal Service Fund.
 - The District understated deferred revenue, due from other agencies, and other accounts by approximately \$130,000, \$84,000, and \$46,000, respectively in the Capital Projects – Other Fund. These reporting errors occurred, in part, because District personnel misunderstood guidance from FDOE requiring revenue recognition of State capital outlay appropriations when FDOE issues encumbrance authorizations.

Reporting errors such as those noted above may cause financial statement users to misunderstand the District's financial activities and to incorrectly assess the District's financial position.

Notes to Financial Statements

- GAAP require that the basic financial statements include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. However, the notes mistakenly omitted a description of significant construction commitments, totaling approximately \$702,000, outstanding at June 30, 2010. Additionally, the notes omitted a description of construction in progress, totaling \$309,550.62. When required disclosures such as these are omitted, financial statement users may not fully understand the District's financial position.

Required Supplementary Information:

- Required supplementary information (RSI) is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, District personnel did not report certain RSI, such as the schedule of revenues, expenditures, and changes in fund balances – budget and actual for the General Fund, Special Revenue – Other Fund, and Special Revenue – ARRA Economic Stimulus Fund (budgetary schedules). Consequently, the District did not provide financial statement users with required information to effectively assess budgetary controls over the use of its General Fund and major special revenue funds.

The above errors and omissions occurred mainly because the District had ineffective review procedures to ensure the AFR was properly prepared. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's financial statements and supplementary information 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. Similar findings were noted in previous audit reports, most recently in our report No. 2010-170.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances, transactions, note disclosures, and required supplementary information are properly reported and the annual financial report is timely submitted to FDOE.

Finding No. 2: Bank Account Reconciliations

Effective internal control procedures require that employees independent of the revenue, expenditure, and payroll processes prepare bank account reconciliations on a routine basis, and supervisory personnel review and approve the reconciliations. This provides reasonable assurance that cash assets agree with recorded amounts and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions.

The District maintained 10 bank accounts, and personnel manually recorded the accounts' transactions in a cash book to monitor cash needs and periodically entered the transactions in the general ledger. However, as similarly noted in previous reports, most recently in our report No. 2010-170, we noted the following:

- District personnel did not timely record cash transactions to the general ledger. For example, the July 1, 2009 (i.e., 2009-10 fiscal year beginning) cash balances were not recorded in the general ledger until September 2010, or approximately 14 months after the beginning cash balance date. Timely recording journal entries in the general ledger may enhance the accuracy of the bank reconciliation process.
- While District personnel attempted to reconcile the June 2010 bank account balances to the cash book, the book was not maintained by reporting fund. Without such, there is an increased risk that restricted cash resources may be used for unauthorized purposes.
- District personnel indicated that individual entries in the cash book were compared monthly to the general ledger transactions; however, District records did not document comparisons of cash book balances to cash balances in the general ledger, differences were not specifically identified and explained, and reconciliations did not contain evidence of supervisory review and approval. As such, the usefulness of the cash book for monitoring cash needs was limited.

At June 30, 2010, cash book balances were approximately \$2,173,000 less than the total reported cash balances. Through the application of extended audit procedures, we determined that most of the discrepancy was due to bank account reconciliation errors, such as overstating outstanding checks, omitting a deposit in transit, and various other errors as noted in Financial Statement Finding No. 1. As of February 16, 2011, District personnel were not able to identify the cause(s) of a remaining difference of approximately \$79,000 and, due to the volume of transactions, it was not practicable for us to do so on postaudit.

Because cash accounts were not properly reconciled, financial information obtained from the general ledger throughout the year was incomplete and may have impaired the ability of the Board and District staff relying on this financial information to effectively monitor the District's financial position. Timely posted entries into the general ledger and prompt reconciliations of the bank account balances to general ledger accounts would provide for timely detection and correction of unrecorded or improperly recorded transactions and would ensure accuracy of the financial records for monitoring District operations throughout the year.

Recommendation: The District should establish procedures to ensure cash transactions are timely recorded in the general ledger, and bank balances are reconciled to general ledger accounts. In addition, the District should consider discontinuing the use of its cash book, and redirect personnel efforts to ensure the accuracy of cash balances recorded in the general ledger.

Finding No. 3: Journal Entries

Accounting (journal) entries are used as necessary to make adjustments to the general ledger balances for asset, liability, revenue, expenditure, and expense accounts, and occasionally entries are necessary to correct beginning fund balance for prior year errors. An administrative assistant and the Director of Finance prepared journal entries to adjust the financial records; however, District records did not evidence independent review and approval of these entries. In addition, we noted numerous erroneous and unsupported entries. For example:

- The District made a journal entry to various general ledger accounts (e.g., payroll deductions and withholdings payable, due from and to other agencies, etc.) “to clean up general ledger” with offsets to various ending fund balances, totaling approximately \$414,000. These fund balance revisions included reductions of fund balances in the Special Revenue – Other Fund (\$533,000); Special Revenue - ARRA Economic Stimulus Fund (\$351,000); Internal Service Fund (\$184,000), and other funds totaling approximately (\$75,000); and an increase in the fund balance of the General Fund totaling \$1,557,000.
- A journal entry appeared to be made allocating cash among the funds, described as “to adjust cash to balance fund balance,” for approximately \$1,166,000 with offsets to various fund balances. These fund balance revisions included fund balance increases to the General Fund and Special Revenue - Other Fund of \$657,000 and \$426,000, respectively; decreases to the Capital Projects - Local Capital Improvement Fund and Capital Projects – Other Fund of (\$821,000) and (\$171,000), respectively, and other fund balance net decreases totaling (\$91,000).

District records did not sufficiently explain the basis for these journal entries, and the entries were incorrectly posted directly to ending fund balances instead of to the appropriate accounts. In addition, as described in Financial Statement Finding No. 2, the bank account reconciliation process did not provide adequate compensating controls to detect and correct these journal entry errors. Absent adequate controls over the journal entry process, there is an increased risk that errors or fraud, should they occur, will not be timely detected and corrected.

Recommendation: The District should establish procedures to ensure that journal entries are independently reviewed and approved, and made to appropriate accounts.

SIGNIFICANT DEFICIENCY

Finding No. 4: Budgetary Controls and Financial Monitoring

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

State Board of Education Rule 6A-1.008, Florida Administrative Code, requires that monthly financial statements be prepared and submitted to the Board. Board Policy 9.20, *Financial Records*, provides that with the assistance of the Finance Director, the Superintendent shall submit to the Board each month a financial statement in a form approved by the Board, and shall include a cumulative report to date of all receipts and expenditures for the fiscal year.

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:

- District records indicated that, for the General Fund, the Board approved only four budget amendments prior to June 30, 2010, and the Board approved no other amendments for any other funds before or after that date. Further, at June 30, 2010, the District had the following overexpenditures:

Fund	Number of Functions Overexpended	Total Functional Overexpenditures (Rounded)
General	8	\$ 645,000
Special Revenue:		
Other	4	\$ 668,000
ARRA	8	\$ 81,000
Capital Projects:		
Public Education Capital Outlay	2	\$ 284,000
Local Capital Improvement	5	\$ 1,009,000

A similar finding was noted in previous audit reports, most recently in our report No. 2010-170.

- Contrary to State Board of Education Rule 6A-1.008, Florida Administrative Code, during the majority of the audit period, the Board was not, of record, provided monthly financial statements. District records evidenced that monthly financial statements were provided to the Board for five months during the fiscal year, including September 2009 through December 2009, and March 2010. However, District records did not evidence that monthly financial statements were provided to the Board for the remaining seven months of the fiscal year, including July 2009, August 2009, January 2010, February 2010, and April 2010 through June 2010. Without monthly financial statements, Board members may have limited understanding of the financial status 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.

Recommendation: The District should enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by State law and rules, and monthly financial statements are provided to the Board in a timely manner.

ADDITIONAL MATTERS

Finding No. 5: Financial Condition

In governmental funds, reserve accounts were used to indicate the portion of fund balance that was restricted to specific purposes and not available for general appropriation by the Board, while the unreserved fund balance was designed to serve as a measure of net current financial resources available for general appropriation by the Board. The unreserved portion represented the amount to 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 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).

The unreserved fund balance in the District's General Fund has increased from \$186,345.22 at June 30, 2009, to \$1,567,543.82 at June 30, 2010, which represents approximately 7.4 percent of General Fund revenues. However, the District may be required to reduce its General Fund unreserved fund balance because the District may not be able to

collect \$516,142.15 reported as due from FDOE (see Federal Awards Finding No. 4) and may have to repay certain questioned costs totaling \$559,895.53, as follows:

Audit Finding Reference	Finding Number(s)	Amount
Previous Report Numbers:		
2010-170 - Federal Awards Finding	4 through 6	\$ 212,376.71
Current Report Findings:		
Additional Matters Finding	9	115,359.00
Federal Awards Finding	1	152,525.80
Federal Awards Finding	2	79,634.02
Total		<u>\$ 559,895.53</u>

If the above amounts are required to be restored, the District could have significantly less resources available for emergencies and unforeseen situations.

Recommendation: The School Board and the Superintendent should consider the impact of the above potential costs on the District's financial condition and take necessary actions to ensure that an adequate unreserved fund balance is maintained in the General Fund.

Finding No. 6: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 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 also provide that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the 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. In addition, Section 1011.80(5)(d), Florida Statutes, indicates that courses shall not be reported for State funding provided at school districts that are externally funded for direct instructional cost.

The District reported 63,095 adult general education course hours to FDOE for the 2009-10 fiscal year. As similarly noted in our report No. 2010-170, our review of 3,655 hours reported for 20 students enrolled in 16 adult general education courses disclosed that the District needed to enhance its controls over enrollment reporting. Specifically, we noted the following:

- Because of oversights, District personnel overreported 640 hours for one student enrolled in courses funded by the Federally-funded Even Start program, contrary to Section 1011.80(5)(d), Florida Statutes.
- Due to estimating the number of hours based on the school calendar instead of using actual attendance, the District overreported 430 enrollment hours for 12 students.
- District personnel did not enter the withdrawal date as the date after the last date of attendance, resulting in 64 overreported hours for 3 students.

- Due to data entry errors, such as posting 12 hours instead of 12 days, the District underreported 101 hours for 2 students.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: **The District should enhance its controls over the reporting of instructional contact hours for adult education courses to FDOE. The District should also contact FDOE for resolution of the misreported hours.**

Finding No. 7: 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.

The District established performance assessment procedures for instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance. The performance appraisal forms for instructional personnel included a student growth category and instructional personnel had to receive an effective evaluation in the category to be rated effective overall. However, District records did not sufficiently correlate the results from the FCAT or other student achievement tests to the performance assessments of instructional personnel. Also, school administrator performance assessments contained student scores as a component of the assessments, but District management indicated that the school administrators were all evaluated effective, regardless of the student achievement results. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments and shortcomings.

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

Finding No. 8: 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. Also, Section 1012.22(1)(c)4., Florida Statutes, requires the Board 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.

Board Policy 7.27 provides that salary schedules shall include provisions for differentiated pay in accordance with Florida Statutes and may include provisions for performance pay. However, the Board had not adopted formal policies and procedures establishing the documented process to identify the 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 and labor contract for instructional personnel listed salaries based on level of education and years of experience. In addition, the labor contract provided that instructional personnel with an effective rating will receive their step increases. The salary schedule also included salaries of school-based administrators based on the respective administrative classification and pay grade. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and labor contract provided salary supplements for additional responsibilities beyond the regular work day, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the labor contract evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or 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 salary schedule for school-based administrators included consideration for additional responsibilities, school demographics, and level of job performance difficulties as the schedule provided differing administrative pay grades based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

District personnel and the instructional personnel labor contract indicated that a committee, comprised of three members of the instructional union and three District administrators, would assist with incorporating performance and differentiated pay measures into the salary schedule. However, without Board-adopted policies and procedures for sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that 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. 9: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that the Board may levy against the taxable value not more than 1.5 mills for specified capital outlay related purposes. Section 1011.71(5), Florida Statutes, provides that the District may expend up to \$100 per unweighted full-time equivalent student from the revenue generated by the tax levy for certain specified purposes, including paying the cost of premiums for property and casualty insurance necessary to insure school district educational and ancillary plants. The District accounts for the capital outlay tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

The District purchased commercial insurance through the Florida School Board Insurance Trust, including property, general liability, automobile liability, workers' compensation, error and omissions, employee benefits liability, and other coverage deemed necessary by the Board. The District paid premiums for this coverage totaling approximately \$654,000 during the 2009-10 fiscal year, including \$287,586 from the LCI Fund. The portion paid from the LCI Fund included property premiums totaling \$172,227; however, the remainder of the premium costs, totaling \$115,359, represented general and employee benefits liability, automobile insurance, excess workers' compensation, and other insurance adjustments that were not insuring District education and ancillary plants. As such, the \$115,359 represents questioned costs.

Without controls to ensure that capital outlay tax levy proceeds are expended only for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions. Section 1011.71(6), Florida Statutes, provides that a school district that violates the expenditure restrictions of Section 1011.71, Florida Statutes, shall have an equal dollar reduction in Florida Education Finance Program funds appropriated to the school district in the fiscal year following the audit citation.

Recommendation: The District should enhance its procedures to ensure that capital outlay tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the \$115,359 capital outlay tax levy proceeds used for insurance premiums or restore this amount to the LCI Fund.

Finding No. 10: Collection of Social Security Numbers

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

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or 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 student enrollment and employment applications. However, due to oversights, the District did not provide parents, legal guardians, employees, or prospective employees with notices identifying the purpose for collecting the SSN; the specific Federal or State law governing the collection, use, or release of the SSN for each purpose; or whether collection of the SSN was authorized or mandatory under Federal or State law. Subsequent to our inquiry, effective September 2010, the District discontinued collection of the SSN from prospective employees on employment applications and updated statements provided to parents, legal guardians,

and employees to identify the specific Federal or State law governing the SSN collection. A similar finding was noted in our report No. 2010-170.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

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

Finding No. 11: Construction Administration

Section 1013.37(2)(a), Florida Statutes, provides that before a contract has been let for construction, the District or its authorized review agent must approve the Phase III construction documents of the final design phase. Our review of the Taylor County Middle School and Child Development Center renovation project, with project costs totaling \$909,221, disclosed that District records did not evidence that the District or an authorized review agent approved the Phase III documents before the project's contract was let for construction. In response to our inquiries, District personnel provided the Phase III construction documents; however, District records did not evidence approval for the documents. Absent appropriate and timely approval, additional changes to the final design plans may affect the original bids received and result in additional unanticipated project costs.

Pursuant to Section 1013.50, Florida Statutes, final payment to construction contractors must occur after issuance of a certificate that the project was constructed in accordance with the approved plans, specifications, and approved change orders, and the Board accepts the project. In addition, Section 4.2 of the FDOE publication, *State Requirements for Educational Facilities – 2007* (SREF) requires the District to obtain a certificate of final inspection, signed by the architect, and approved by the Board, once a project had been inspected for occupancy. According to the architect's contract, substantial completion is defined as when the project is sufficiently completed in accordance with the contract documents so that the owner can occupy or use the project for its intended use, and is evidenced by a certificate signed by an architect, contractor, and District representative.

The District established a retainage payable totaling \$38,686.73; however, contrary to the above-noted statutory and SREF requirements, the District made final payment of this amount for the Taylor County Middle School and Steinhatchee K-8 renovation project, with project costs totaling approximately \$870,000, without Board approval or issuance of a certificate of final inspection. The District made final payment to the contractor on September 30, 2009, approximately nine months prior to the issuance of the certificate of substantial completion. As of February 2011, the District had not obtained the certificate of final inspection, without which the District cannot be assured the project was completed in accordance with the approved plans and specifications, and the ability to assess liquidated damages may be limited. Withholding a reasonable amount of retainage payable from contractors until project completion may ensure that construction is completed consistent with the Board's intent.

Recommendation: The District should enhance its procedures to ensure that final design plans are approved before awarding construction contracts. Additionally, the District should enhance close-out procedures to ensure that final payments to contractors are withheld until the District obtains a certificate of final inspection.

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

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. As similarly noted in previous audit reports, most recently in our report No. 2010-170, the District lacked written policies and procedures for the following IT functions:

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

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

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

Finding No. 13: Information Technology – Disaster Recovery Plan

The Board entered into a reciprocal disaster recovery agreement with Panhandle Area Educational Consortium (PAEC) member districts whereby member districts agreed to serve as alternative processing sites for each other in the event of a disaster that interrupts critical District IT operations. Also, the District had established a Disaster Recovery Plan (Plan) and assigned responsibilities for carrying out disaster recovery activities to particular individuals. In addition, the District's administrative application systems are processed at Northwest Regional Data Center (NWRDC). However, as similarly noted in our report No. 2010-170, the District had not fully tested the Plan, and the Plan did not include the following key recovery control elements:

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

On April 30, 2010, the Northwest Regional Data Center conducted a test of its Plan at a recovery site. District personnel participated in the test by connecting to the recovery site and accessing student, human resource, and finance applications. However, District personnel stated they only processed reports from the student applications and not the human resource or finance applications.

An IT Disaster recovery plan is 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 fully 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 IT Disaster Recovery Plan to include the above-noted key recovery control elements, and should fully test the effectiveness of the Plan.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

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

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: \$152,525.80

Matching, Level of Effort, Earmarking – Targeting Funds for Supplemental Educational Services. For the 2009-10 school year, three District schools were identified as schools in need of improvement (SINI) pursuant to the No Child Left Behind Act of 2001. Title 34, Sections 200.44 and 200.45, Code of Federal Regulations (CFR), requires the District to provide parents of students enrolled in a school identified as in need of improvement with the option to transfer to another public school served by the District. The CFR further requires schools in their second and subsequent years of improvement status to provide supplemental educational services (SES) to students enrolled in those schools from State-approved providers. Title 34, Section 200.45, CFR, also provides that the District must arrange for each eligible student in the school to receive SES from a State-approved provider selected by the student's parents. In addition, Title 34, Section 200.48(a)(2), CFR, provides that, unless a lesser amount is needed, the District must spend an amount equal to 20 percent of its Title I allocation to provide transportation for students exercising a choice option to attend another school or to satisfy all requests for SES. These services represent extra academic assistance offered during off-school hours to eligible students and provides for tutoring, remediation, and academic intervention free of cost.

The Florida Department of Education (FDOE) is primarily responsible for identifying schools that are required to offer transportation and SES, as well as identifying eligible SES providers, while the District is responsible for securing SES providers from the State-approved provider listing to offer services. In addition, the District was originally required to earmark \$281,778, or 20 percent of its \$1,408,890 Title I allocation (\$901,567 for Title I and \$507,323 for Title I – ARRA), for these purposes during the 2009-10 fiscal year. Our review of SES and choice with transportation during the 2009-10 school year disclosed the following areas of noncompliance and control deficiencies:

- Contrary to Federal regulations, the District did not send letters to parents of students enrolled at the Steinhatchee School notifying them of the option to transfer their 6th through 8th grade students to Taylor County Middle School, a school not identified as in need of improvement. While exceptions for choice with transportation may be made for impracticality due to the distance of a choice school, as these two schools are approximately 40 miles apart, District records did not evidence that FDOE or the United States Department of Education granted waivers of this requirement.
- Although the Steinhatchee School was a Title I schoolwide school identified as SINI for the fourth year during the 2009-10 fiscal year, the District did not send letters to parents of students enrolled in grades K through 1st or 6th through 8th at the school notifying them of the option to receive SES.

- The Perry Primary School was a Title I schoolwide school identified as SINI for the fifth year during the 2009-10 fiscal year; however, the District did not send letters to parents of students enrolled in grades K through 1st at the school notifying them of the option to receive SES.
- Section 1008.331, Florida Statutes, requires the District to provide SES providers access to school facilities using the same policies applied to other organizations that have access to school sites. Contrary to these provisions, four of the District's contracts with State-approved providers prohibited the providers from using school facilities for SES, although the District maintained a fee schedule for other organizations' use of facilities and routinely approved use of its facilities for these other organizations.

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

In addition, District records indicate only \$129,252.20 was spent to meet the 20 percent earmark for SES and transportation, which is \$152,525.80 less than the \$281,778 the District was required to earmark. District records also show that the District applied to the FDOE for a waiver of its inclusion of ARRA funds in the set-aside for SES and choice with transportation. As part of this waiver, the District assured that it would comply with its statutory and regulatory obligations for the provision of SES and choice with transportation with respect to the regular Title I, Part A allocation, and FDOE granted the waiver. Insofar as the District kept waiting lists of 31 students whose parents requested SES but were not ultimately provided these services, some parents who requested services did not receive SES for their children. Additionally, based on the notification deficiencies and facilities access restrictions noted above, the District may have further limited the ability of parents to make informed decisions regarding the educational choices available to their children and reduced the demand for SES and transportation. Consequently, the unspent portion of the original SES and transportation earmark, totaling \$152,525.80, and including ARRA funds in the set-aside, represents questioned costs subject to disallowance by the grantor. A similar finding was noted in our report No. 2010-170.

Recommendation: The District should enhance its procedures to ensure that it notifies parents, whose children attend schoolwide schools identified as in need of improvement, of all available SES and transportation options. Additionally, the District should provide SES providers the same access to school sites as provided to other organizations. Further, the District should contact the grantor (FDOE) regarding the remaining earmarked funds, totaling \$152,525.80, and either expend them in the 2010-11 fiscal year to meet unmet SES need or restore them to the Title I program.

District Contact Person: Wanda Kemp, Director of Instruction

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

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

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$79,634.02

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Section 299.5, CFR, provides that the District may receive its full allocation of Title I funds only if FDOE finds that either the aggregate expenditures of State and local funds for free public education, or the combined fiscal effort per student, for the preceding fiscal year, was not less than 90 percent for the second preceding fiscal year. Further, Public Law 20-7901, United States Code, provides that FDOE shall reduce the amount of allocation of funds under the Title I program in any fiscal year in the exact proportion by which the District fails to meet the fiscal effort requirement using the measure most favorable to the District.

FDOE determined that the District did not meet the 90 percent maintenance of effort threshold for the 2008-09 fiscal year. Based on the District's unaudited 2008-09 and 2007-08 annual financial reports and using the most favorable measure, FDOE determined the District was required to expend \$7,682 per student to meet the maintenance of effort requirement. FDOE determined that the District expended \$7,354 per student for the 2008-09 fiscal year, resulting in a shortfall of \$328 per student for a total of approximately \$970,000.

As part of our audit tests, we reperformed the District's 2008-09 fiscal year maintenance of effort calculation using audited General Fund revenues and expenditures as follows:

	From Rpt. No. 2010-170	From Rpt. No. 2009-171
Aggregate Expenditures Effort	FY 2008-09	FY 2007-08
General Fund Total Expenditures	22,159,817.90	25,504,584.70
Less: Community Services <i>Function 9100</i>	62,492.13	59,102.86
Less: Capital Outlay <i>Functions 7420 and 9300</i>	63,608.86	147,848.33
Less: Debt Services <i>Function 9200</i>	27,290.61	0.00
Adjusted Expenditures	22,006,426.30	25,297,633.51
Less: Federal Direct Revenue <i>3100</i>	49,540.32	53,962.12
Less: Federal Through State Revenue <i>3200</i>	147,465.21	87,756.38
Total Allowable Expenditures	21,809,420.77	25,155,915.01
Percentage	86.70%	

Per Pupil Fiscal Effort	FY 2008-09	FY 2007-08
Total Allowable Expenditures (from above)	21,809,420.77	25,155,915.01
Unweighted Final FTE	2,954.88	3,056.30
Per Pupil Cost	7,380.81	8,230.84 (A)
Percentage	89.67%	

Calculations:

Per Student Amount to Maintain Effort	7,407.76	[(A) X 90 percent]
Per Pupil Cost Difference	26.95	[7,407.76 - 7,380.81]
Potential Reduction of Allocation	79,634.02	[26.95 X 2,954.88]

District personnel indicated that the District reduced General Fund expenditures for the 2008-09 fiscal year as part of its measures taken to increase the General Fund unreserved fund balance as described in our report No. 2010-170, Financial Statement Finding No. 1. Although FDOE did not reduce the allocation of 2009-10 Title I funds, it indicated in a letter to the District dated January 6, 2011, that it would seek a waiver request from the United States Department of Education on the District's behalf. However, absent an approved waiver, the District's Title I funding could be reduced by an amount equal to the amount of the maintenance of effort shortfall as recalculated by us based on audited expenditure amounts.

Recommendation: **The District should contact the grantor (FDOE) regarding the status of the waiver or restore the funds, totaling \$79,634.02, to the program.**

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 3:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** Not Applicable

Cash Management. Our review of Federal cash advances received through the FDOE during the 2009-10 fiscal year to fund various Federal programs included a comparison of the monthly beginning cash balance, plus cash draws for the month, minus disbursements for the month. While District personnel monitored Federal moneys expended, and made Federal cash draws, the District's Federal cash management procedures were not effective, resulting in monthly Federal expenditures exceeding cash draws throughout the fiscal year. Our review disclosed ending monthly Federal cash deficits for all 12 months ranging from \$600,575.37 to \$1,867,297.86 for the Special Revenue - Other Fund and for all 12 months ranging from \$97,602.24 to \$559,373.92 for the Special Revenue – ARRA Economic Stimulus Fund. These cash deficits necessitated the use of other non-Federal moneys to temporarily pay Federal costs and, as such, reduced the availability of General Fund moneys for operating purposes. A similar finding was noted in previous audit reports, most recently in our report No. 2010-170.

Recommendation: The District should enhance its procedures to accurately anticipate disbursements of Federal moneys, and maintain Federal cash balances at appropriate levels to provide sufficient resources for immediate needs.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 4:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Special Education Cluster (CFDA Nos. 84.027 and 84.173); Adult Education – State Grant Program (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Career and Technical Education – Basic Grants to States (CFDA No. 84.048); Even Start – State Educational Agencies (CFDA No. 84.213); Twenty-First Century Community Learning Centers (CFDA No. 84.287); State Grants for Innovative Programs (CFDA No. 84.298); Education Technology State Grants (CFDA No. 84.318); Reading First State Grants (CFDA No. 84.357); Rural Education (CFDA No. 84.358); and Improving Teacher Quality State Grants (CFDA No. 84.367)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** Not Applicable

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

As similarly noted in previous audit reports, most recently in our report No. 2010-170, District records indicated that expenditures totaling \$516,142.15 were recorded in the District's general ledger for certain Federally-funded FDOE grants that were not reported to FDOE through the On-Line Disbursement Reporting Application, as of

February 23, 2011. These expenditures were for the 2006-07 (\$73,940.51), 2007-08 (\$107,400), and 2008-09 (\$334,801.64) fiscal years. Further, as of June 30, 2010, these projects were closed in CARDS, although there were unexpended budgets for these grants. However, because the District did not properly report these expenditures, FDOE's records collectively show \$516,142.15 less expenditures than the District's accounting records, and the availability of the unexpended budgeted funds of these grants for District use, as of February 23, 2011, was uncertain. As such, the collectability of the District's receivable from FDOE is questionable.

We further noted that although the District timely prepared and filed the CARDS Reconciliation with FDOE, the amount of Federal cash on hand reported by the District at June 30, 2010, was approximately \$497,000 more than Federal cash on-hand according to the District's accounting records, due primarily to the underreporting of expenditures as noted above. The failure to periodically reconcile FDOE cash advance balances and program expenditures to amounts per the 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 program expenditures to ensure that amounts reported to FDOE agree with or reconcile to the District's accounting records. Further, the District should contact FDOE to determine the availability of unexpended budgeted funds for grant expenditures totaling \$516,142.15 during the 2006-07, 2007-08, and 2008-09 fiscal years that were not reported to FDOE.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 5:

Federal Agency: United States Department of Health and Human Services

Award Numbers: 04CH0506/16 and 04CH0506/17

Program: Head Start (CFDA No. 93.600)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Cash Management and Reporting. The District received funding directly from the United States Department of Health and Human Services – Payment Management System for its Head Start program, and is required to quarterly file a Federal Cash Transaction Report evidencing cash on hand at the end of each quarter. Our review of the Federal Cash Transaction Report for the quarter ending June 30, 2010, disclosed that the cash balance for the Head Start Program identified in the general ledger was approximately \$104,000 less than the cash balance reported on the Federal Cash Transaction Report. We calculated the cash balance that should have been reported using the beginning cash, plus cash draws, less Head Start expenditures, and calculated a positive cash balance at June 30, 2010, of \$47,584.22. The District reported a deficit cash balance of \$45,808.19 on the Federal Cash Transaction Report, a difference of \$93,392.41. District personnel indicated that they have consulted with United States Department of Health and Human Services staff and have made attempts to correct the cash balance reported in the Federal Cash Transaction Report. A similar finding was noted in previous audit reports, most recently in our report No. 2010-170.

Recommendation: The District should implement procedures to ensure that the Federal Cash Transaction Report is accurate and reconciled to the District's records, and continue efforts to resolve the \$93,392.41 difference mentioned above.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 6:

Federal Agency: United States Department of Education (CFDA No. 84.010) and United States Department of Health and Human Services (CFDA No. 93.600)

Pass-Through Entity: Florida Department of Education (CFDA 84.010)

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

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 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 Head Start programs, totaling \$911,185.75 and \$906,108.45, respectively. Of these amounts, we tested expenditures, totaling \$541,268.57 and \$422,404.37, respectively, from these programs to determine whether the District maintained the required records to support these personnel costs and whether the costs complied with the grant terms. Our tests disclosed that enhancements were needed in District procedures for maintaining documentation to support these costs, as follows:

- The District did not obtain the required semiannual certifications for three employees working solely on the Title I program from January 2010 to June 2010, and did not obtain the semiannual certifications for two of these three employees from July 2009 to December 2009, to support salaries and benefits expenditures totaling \$112,363.81.
- The District did not obtain the required semiannual certifications for 14 employees working solely on the Head Start program from January 2010 through June 2010 to support salaries and benefits expenditures totaling \$397,374.25.

Absent the required semiannual certifications, we performed additional audit procedures, including obtaining confirmations from applicable employees and interviewing supervisory personnel, and determined that the employees devoted the appropriate amount of time on Federal program activities for their respective salary charges. A similar finding was noted in previous audit reports, most recently in our report No. 2010-170.

Recommendation: The District should enhance its procedures to provide for the required semiannual certifications for employees who work solely on a single Federal program.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 7:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389 - ARRA)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** Not Applicable

Procurement – Contract Administration. Office of Management and Budget *Circular A-133 Compliance Supplement* and Title 7, Section 3016, Code of Federal Regulations, require the District to use procurement procedures that reflect applicable state laws. State Board of Education Rule 6A-1.012, Florida Administrative Code (Rule), requires the District to request bids from three or more sources for purchases exceeding \$50,000, and the Rule provides that competitive solicitation is a written solicitation for competitive sealed bids available for public response.

Our tests of expenditures totaling \$270,303.60 for Title I – ARRA program services disclosed enhancements were needed in District procedures for contract administration. The District solicited e-mails or facsimiles from three vendors to obtain price quotes for installation of 85 projector systems (including electrical). However, the District received the quotes by e-mail or fax, not competitive sealed bids, contrary to the above Rule. The District received the installation services from November 2009 to June 2010, and paid \$100,166.32 to the vendor for these services. Without proper competitive purchasing procedures, there is an increased risk that vendors may legally challenge the District's vendor selection process, and the District may not obtain goods and services at the best price consistent with acceptable quality.

Recommendation: The District should enhance its procedures to ensure that competitive sealed bids are obtained for applicable purchases based on Federal regulations and State Board of Education Rule 6A-1.012, Florida Administrative Code.

District Contact Person: Vicki McManus, Director of Finance

Federal Awards Finding No. 8:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Special Education – Grants to States, Recovery Act (CFDA No. 84.391 - ARRA)**Finding Type:** Noncompliance and Significant Deficiency**Questioned Costs:** Not Applicable

Reporting. Expenditures of grant funds are reported through FDOE's On-Line Grant Reporting System in accordance with reporting and administrative requirements set forth in the FDOE publication titled, *American Recovery and Reinvestment Act (ARRA) Budget Amendment and Quarterly Reporting Instructions*. This publication provides instructions for reporting expenditures of grant funds, submitting or revising budget data, and reporting ARRA-funded jobs.

Our review of District records disclosed that expenditures, totaling approximately \$39,800, were recorded in the District's general ledger for the ARRA – Special Education – Grants to States program for the period ended March 31, 2010, but were not reported to FDOE through the On-Line Grant Reporting System. Although requested, District staff had not provided the basis for the reported expenditures, as of February 22, 2011.

Recommendation: The District should enhance its procedures for reporting ARRA expenditures to ensure that amounts reported to FDOE agree with or reconcile to the District's accounting records.

District Contact Person: Vicki McManus, Director of Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2010-170.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

*TAYLOR 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
2007-161 (7) 2008-151 (2) 2009-171 (5) 2010-170 (1)	Head Start (CFDA No. 93.600) / Cash Management and Reporting	District procedures were not adequate to ensure that the status of Federal Head Start cash was accurately reported and in agreement with District records.	Not corrected.	District has contacted the grantor and received some assistance in reconciling cash balances, but one error in the beginning cash balance remains. The District will work with the grantor to resolve this remaining issue.
2007-161 (8)	Head Start (CFDA No. 93.600) / Matching, Level of Effort, Earmarking - Development and Administrative Costs	Costs for developing and administering the District's Head Start program, for the grant period February 1, 2005, through January 31, 2006, was \$43,598 in excess of the 15 percent allowable amount.	Corrected.	Based on information gathered during an on-site monitoring follow-up review, USDHHS determined the deficiency had been corrected and questioned costs were not required to be restored.
2007-161 (3) 2008-151 (5)	Education Technology State Grants (CFDA No. 84.318), Head Start (CFDA No. 93.600), and Special Education Cluster (CFDA Nos. 84.027 and 84.173) / Procurement - Contract Administration	Enhancements were needed in District procedures to ensure expenditures with Federal moneys are made pursuant to contracts that include the required contractual provisions. Additionally, the District did not obtain and maintain documentation to support time worked by contracted vendors; consequently, payments totaling \$109,134.91 and \$49,862.75 for the 2005-06 and 2006-07 fiscal years, respectively, represent questioned costs subject to disallowance by the grantor.	Partially corrected.	One of the grantors, FDOE, reviewed materials provided by the District and, in the 2010-11 fiscal year, determined that corrective measures had been taken to resolve the finding for the Education Technology and Special Education programs, and questioned costs were not required to be restored. The other grantor, United States Department of Health and Human Services, has not made a determination regarding the Head Start program.
2007-161 (6)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions - Highly Qualified Teachers	Enhancements were needed in District procedures to ensure that all teachers hired to work in the District's Title I program are highly qualified. In addition, the District should document to FDOE the allowability of questioned costs, totaling \$110,525, or these moneys should be restored to the Title I program.	Corrected.	The grantor reviewed materials provided by the District and, in the 2010-11 fiscal year, determined that corrective measures had been taken to resolve the finding, and questioned costs were not required to be restored.
2007-161 (9) 2008-151 (4) 2009-171 (6) 2010-170 (5)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Head Start (CFDA No. 93.600) / Allowable Costs/Cost Principles - Compensation of Personnel Services	Enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries and benefits to the Head Start and Title I programs for employees who worked on single and multiple cost objectives. Additionally, the District paid the salary and benefits of a technology specialist resulting in Title I program questioned costs of \$55,119.68 during the 2008-09 fiscal year.	Not corrected.	District is developing procedures to adequately document time worked on all Federal programs. Grantor has not issued final determination with regard to questioned costs. A similar item is noted in the 2009-10 fiscal year report.
2008-151 (9) 2009-171 (2) 2010-170 (3)	Adult Education - Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Career and Technical Education - Basic Grants to States (CFDA No. 84.048); Even Start - State Educational Agencies (CFDA No. 84.213); Twenty-First Century Community Learning Centers (CFDA No. 84.287); State Grants for Innovative Programs (CFDA No. 84.298); Education Technology State Grants (CFDA No. 84.318); Reading First State Grants (CFDA No. 84.357); Rural Education (CFDA No. 84.358); and Improving Teacher Quality State Grants (CFDA No. 84.367) / Reporting	The District needs to improve its monitoring of Federal expenditures to ensure that amounts recorded in the general ledger are appropriately reported to FDOE and that the required cash advance reconciliation is timely completed. Additionally, the District should contact FDOE regarding necessary action to resolve the questioned costs, totaling \$22,940.85, related to the Special Education program for the 2007-08 fiscal year and questioned costs of \$21,198.19, \$16,686.75, and \$16,090.08 for the Title I, Twenty-First Century, and Reading First Programs, respectively, for the 2008-09 fiscal year.	Partially corrected.	The grantor reviewed materials provided by the District and, in the 2010-11 fiscal year, determined that corrective measures had been taken to resolve the finding, and questioned costs were not required to be restored. The District will contact FDOE regarding collection of underreported grant expenditures.

**TAYLOR 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
2009-171 (1)	Head Start (CFDA No. 93.600) / Matching, Level of Effort, Earmarking - Matching and Contribution and Development and Administrative Costs	The District did not evidence that the in-kind matching contribution requirement was met, and did not file the SF-269 annual financial status report for the period ending January 31, 2008, evidencing the amount and percentage of development and administrative costs incurred or matching expenditures claimed, resulting in questioned costs of \$989,492.38.	Corrected.	Based on information gathered during an on-site monitoring follow-up review, the grantor determined the deficiencies had been corrected, and questioned costs were not required to be restored.
2010-170 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); and Education Technology State Grants (CFDA No. 84.318) / Cash Management	District procedures for cash management of Federal programs provided by the Florida Department of Education (FDOE) needed improvement. Deficit cash balances were maintained throughout the year necessitating the use of non-Federal resources to fund Federal programs.	Not corrected.	The District has developed procedures to more accurately anticipate disbursements of Federal moneys; however, those procedures have not been fully implemented.
2010-170 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, Earmarking - Supplement Not Supplant	The District used Title I program funds to reduce (supplant) the amount of other moneys used to operate the program, contrary to Federal regulations, resulting in questioned costs of \$85,109.40.	Partially corrected.	Grantor has not issued final determination with regard to questioned costs.
2010-170 (6)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, Earmarking - Targeting Funds for Supplemental Educational Services	Improvements were needed in the District's administration of supplemental educational services and transportation choice options for students attending schools identified as in need of improvement. The unexpended \$72,147.63 portion of the earmark represents questioned costs.	Not corrected.	District will develop procedures to ensure that it notifies parents of all SES and transportation options and provide SES providers the same access to school sites as provided to other organizations. Grantor has not issued final determination with regard to questioned costs.
2010-170 (7)	Head Start (CFDA No. 93.600) / Matching, Level of Effort, Earmarking	District records did not evidence the District's compliance with the required in-kind matching contributions related to the Head Start program, resulting in questioned costs of \$247,426.74.	Corrected.	Based on information gathered during an on-site monitoring follow-up review, the grantor determined the deficiency had been corrected, and questioned costs were not required to be restored.
2010-170 (8)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) / Activities Allowed or Unallowed, Allowable Costs/ Cost Principles, and Equipment Management	FDOE conducted a program review of the Twenty-First Century Program and noted certain control deficiencies and unallowable expenditures, resulting in questioned costs of \$19,294.51.	Corrected.	Questioned costs were restored to the program.
2010-170 (9)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Education Technology State Grants (CFDA No. 84.318) / Procurement - Contract Administration	Four contracts for Child Nutrition program services, three contracts for Education Technology program services, and two contracts for Title I program services lacked certain contractual provisions, contrary to Federal regulations.	Not corrected.	The District has developed procedures to ensure contracts contain the required provisions; however, those procedures were not consistently followed.

EXHIBIT A
MANAGEMENT'S RESPONSE



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Paul Dyal, Superintendent

March 17, 2011

David W. Martin, CPA
Auditor General
111 W. Madison Street
Tallahassee, Florida 32399

Dear Mr. Martin:

Attached is our responses to the preliminary and tentative audit findings for fiscal year ended June 30, 2010.

Sincerely,

Paul E. Dyal
Superintendent of Schools
Taylor County School District

PED/sbbeach

School Board Members

Danny Glover Jr.
Residence Area One

Brenda H. Carlton
Residence Area Two

Darrell Whiddon
Residence Area Three

Danny Lundy
Residence Area Four

Kenneth R. Dennis
Residence Area Five

An Equal Opportunity – Equal Access Employer – Veterans' Preference Employer

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)



THE DISTRICT SCHOOL BOARD OF TAYLOR COUNTY

318 North Clark Street
Perry, Florida 32347
(850) 838-2500 – Telephone
(850) 838-2501 – Fax
Taylor.k12.fl.us
Paul Dyal, Superintendent

March 17, 2011

Management Response – Taylor County District School Board

Report for FY 2009-10

Finding # 1 Financial Reporting

We agree that improvements can be made to the financial reporting procedures. As noted in the audit report, we did hire a consultant to prepare the Balance Sheet portion of the AFR, the Notes to the Financial Statements and Management's Discussion & Analysis in September, 2010. The Revenue and Expenditure portion of the AFR was submitted online to DOE by the September 23rd approved due date. We did attempt to locate a consultant for such assistance in May and June, but those individuals who were qualified and known to us and surrounding districts were not available. Due to the time constraints, there were several errors which carried through to several audit findings, primarily affecting the balance sheet. Our corrective action plan includes hiring a consultant for preliminary work beginning in April 2011. We have also planned additional training for the Finance Director and staff with neighboring districts. This will allow the timely correction of any errors and prepare the District for the year-end process.

Finding # 2 Bank Reconciliations

We agree that sufficient bank reconciliation processes were not in place in 2009-10, resulting in an unreconciled general ledger balance at year-end. During 09-10, we continued to make progress in the bank reconciliation process, and as noted in the audit, completed a detailed comparison of the bank activity to the cash book and general ledger on a monthly basis, making journal entries as needed for true cash activity. The errors noted in the audit were primarily related to automated entries generated by the payroll system which need to be reversed on a monthly basis. Our corrective action plan includes outside assistance to establish a written procedure to make these correcting entries, and to properly document the reconciliation process. We intend to utilize the TERMS bank reconciliation process in conjunction with the on-line Capital City Bank reconciliation.

Finding # 3 Journal Entries

The District has implemented procedures to ensure that journal entries are properly reviewed and approved, and that sufficient documentation is attached to each journal entry.

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EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding # 4 Budgetary Controls and Financial Monitoring

We agree that budgetary controls could be improved. With the continued revenue reductions and necessary expenditure reductions in 2009-10, the focus was on managing the overall expenditures, revenues and fund balance, not on preparing budget amendments for offsetting variances. As noted in the audit report, our fund balance increased from \$186,345.22 to \$1,567,543.82, or 7.4% of general fund revenue, which is a significant improvement. For the 2010-11 year, budget amendments are being prepared for Board approval. Procedures are being implemented to ensure proper year-end budget amendments and budget schedules will be prepared and presented to the Board prior to the filing of the Annual Financial Report.

In addition, we will shift some of the budget workload from the summer to the period of April-June. Both of these steps will facilitate the timely preparation of the AFR and allow more time for review before submission to DOE.

Finding # 5 Financial Condition

The District does consider the potential impact of all questioned costs on our financial results. As noted in #4, the District's financial condition has improved significantly in the past two years, with the unreserved general fund balance increasing from \$186,345.22 to \$1,567,543.82. We have contacted DOE to resolve the prior year issue of cash draws to match reported expenditures, and believe that we will prevail in this matter.

We have also received Letters of Determination from DOE since the end of the audit period addressing much of the prior year questioned costs. We have contacted FSBIT to obtain the documentation on the \$115,359 in capital outlay proceeds used for property and casualty insurance, a finding that was in every FSBIT District that used capital outlay for this purpose. We have implemented corrective procedures to address the Title I SES/Choice with Transportation finding and are on track to appropriately expend the funds on SES. We are also working with FDOE to obtain a final Letter of Determination on this issue.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

In January, we were notified that FDOE is requesting a waiver from USDOE on the 2008-09 Maintenance of Effort finding. DOE supports this waiver, due to our financial condition in prior years, coupled with significant budget reductions in general fund revenue.

Finding # 6 Adult Education Courses

The District has identified the cause of the errors and has taken action to prevent such errors in the future.

Finding # 7 Performance Assessments

The District will enhance its procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance and maintain records evidencing this.

Finding # 8 Compensation and Salary Schedules

The Board will adopt formal policies and procedures for ensuring that 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 # 9 Ad Valorem Taxation

As noted in finding # 5, we have contacted FSBIT to obtain the documentation the components of insurance premiums, which impacts the \$115,359 in capital outlay proceeds used for property and casualty insurance. This is a finding common to other FSBIT Districts that used capital outlay for this purpose.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding #10

The District will continue its efforts to ensure compliance with Section 119.071(5)(a), and continue to not collect an individual's SSN without a written statement in District policy which gives the purpose for its collection, unless specifically authorized by law to do so, or it is deemed imperative for the performance of the District's duties and responsibilities as prescribed by law. The District will continue to provide all individuals whose SSNs are collected with a written statement indicating whether the collection is authorized or mandatory under Federal or State law and identify the specific law. Those collected numbers will not be used for any purpose other than the purpose provided in the written statement, and the District will continue to review this compliance in the future.

Finding #11

The District agrees with these findings. As a result, procedures are in the process of being implemented which will correct these deficiencies. The District Facility Coordinator will participate in training at the Florida Department of Education for **Project Tracking**. This new online system is part of the Educational Facilities Information System and the system will provide a method for submitting the proper documents to FDOE. In the course of a future project, the proper documents necessary for board approval mentioned in this finding will be noted and submitted to the school board for approval at the appropriate time.

Finding # 12

We accept the finding re: the Information Technology policies and procedures. Although we do have policies and procedures in place in practice, they are not written. We have continued to work with PAEC to have them develop a framework that member districts could use, but a procedure from PAEC has not been produced.

We have contacted a neighboring district and obtained a copy of their policy, which will be used as a basis for our policy, to be completed by year-end 2010-11. This is a common finding among multiple districts.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding #13

During 2009-10, the Panhandle Area Educational Consortium (PAEC) worked to produce a Disaster Recovery Plan that could be used by member districts. Since that plan was not completed in the time frame expected, District staff developed an interim plan and provided it to the audit staff after the end of the 2009-10 year being audited. A more detailed plan has recently been received by the District from PAEC.

Federal Award Findings**Federal Finding # 1 SES**

Procedures have been implemented to properly notify all parents of services available to them, and to document instances of parents refusing such services. We have changed the SES model for the Taylor County Middle School Private Provider, and are on track to expend all funds for this year, within the 15% underrun allowed. We will contact FDOE for a final Letter of Determination on the questioned costs from the prior year.

Federal Finding # 2 Maintenance of Effort

As noted in finding #5 above, in January, we were notified that DOE is requesting a waiver from USDOE on the 2008-09 finding on Maintenance of Effort. FDOE supports this waiver, due to our financial condition in prior years, coupled with significant budget reductions. We have also notified FDOE of the calculation used by the Auditor General's staff. Since this calculation is significantly lower than the FDOE calculation, it should facilitate the granting of the waiver by USDOE.

Federal Finding #3 Cash Management

Significant progress was made in the area of matching cash draws to expenditures in 2009-10. However, the prior year finding was not resolved; therefore, resulting in deficits carrying forward. Some delays in cash draws have occurred due to the extended absence of a key employee; however, cash needs are being monitored and cash draws are being reconciled to expenditures reported monthly. We will continue to work to improve and document processes in this area.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Federal Finding # 4 Reporting of Federal Expenditures and Cash Draws through FDOE

Throughout 2009-10, we monitored federal expenditures and cash draws with the cash balances in the DOE CARDS system as they are reported, at least on a monthly basis. The discrepancy noted in the audit report is primarily due to the prior year audit finding that has not yet been resolved with FDOE. We have contacted FDOE to ensure this issue is resolved as soon as possible. As noted in finding #5, we believe we will prevail in this matter.

Federal Finding # 5 Cash Management and reporting – Head Start

A program fiscal manager from the Regional Head Start office assisted the District in the reconciliation and correction of the prior year cash balance in the Federal Financial Report (FFR) system which replaced the PSC 272 report. The District used the beginning cash balance as provided through that assistance to post the corrected cash balance in the system. Extensive detailed documentation of revenues and expenditures were provided to the program manager as part of this process, and were reviewed and accepted by her. However, the beginning balance does not agree with that determined by the Auditor General's staff, resulting in the discrepancy noted in the audit. We will make a final correction using the audited balance in April when we are allowed to update the data in the system for the quarter ending 3/31/11.

Federal Finding # 6 Compensation of Personnel Services

We agree that the semi-annual certifications of salary and wages benefitting federal programs should be prepared and retained for all employees in the Head Start program or any 100% federally funded program. We will implement review processes to ensure that all forms are returned on a timely basis and retained for audit purposes. These efforts have been hampered by the elimination of a position in District staff to meet budget reductions, and by significant medical absences of key employees.

Federal Finding # 7 Procurement – Contract Administration

We agree that proper bid procedures should be followed and will implement processes and a checklist to ensure that vendors for expenditures expected to be over the statutory threshold are not selected without the bid process.

Federal Finding #8 Reporting

We will implement procedures to ensure that ARRA expenditures are accurately reported.