

PUTNAM 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>
John D. Milton, Vice Chair from 11-17-09	1
Terry Wright	2
Lisa Parsons, Chair to 11-16-09	3
C. L. Overturf, Jr., Vice Chair to 11-16-09, Chair from 11-17-09	4
Joann Barber	5

Thomas D. Townsend, 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 was coordinated by Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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

	PAGE NO.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	9
Statement of Net Assets	9
Statement of Activities	10
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	22
Notes to Financial Statements	23
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds	44
Schedule of Funding Progress – Other Postemployment Benefits Plan	46
Ten-Year Claims Development Information – North East Florida Educational Consortium - Risk Management Property/Casualty Program	47
Notes to Required Supplementary Information	48
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	49
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	51
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 <i>CIRCULAR A-133</i>	53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	55
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	65
EXHIBIT A MANAGEMENT'S RESPONSE	66

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 a material weakness and 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 WEAKNESS

Finding No. 1: Improvements could be made in financial reporting procedures to ensure that account balances, transactions, and required supplementary information are properly reported.

SIGNIFICANT DEFICIENCY

Finding No. 2: The District needed to enhance procedures to ensure timely bank account reconciliations.

ADDITIONAL MATTERS

Finding No. 3: 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. 4: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 5: District records did not evidence that the use of capital outlay tax levy moneys for insurance premiums was consistent with Section 1011.71(5), Florida Statutes, resulting in approximately \$1.1 million of questioned costs.

Finding No. 6: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 7: The District needed to strengthen IT access controls.

Finding No. 8: The North East Florida Educational Consortium Regional Information Center, which provides IT services to the District, needed to improve its disaster recovery plan.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Discretionary Grants; Title I, Part A Cluster; Special Education Cluster; Twenty-First Century Community Learning Centers; and State Fiscal Stabilization Fund Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note a noncompliance finding as summarized below.

Federal Finding No. 1: The District transferred funds, totaling \$2.5 million, from the internal service fund to the General Fund during the 2008-09 fiscal year, and no determination has been made of the portion that should be credited to Federal programs.

Audit Objectives and Scope

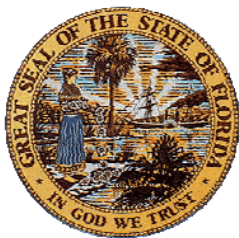
Our audit objectives were to determine whether the Putnam County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-152.

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 United States 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam County District School Board, as of and for the fiscal year ended June 30, 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 7 percent of the assets and 51 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Children's Reading Center Charter School, the discretely presented component unit. Those financial statements were audited by other auditors whose reports 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. 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Putnam County District School Board as of June 30, 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 Putnam County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 44 through 48) 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 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Putnam 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 43.

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$3,071,637.50, which represents a 3.6 percent increase over the 2008-09 fiscal year.
- General revenues total \$105,615,280.86, or 74.6 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$36,015,485.97, or 25.4 percent of all revenues.
- Expenses total \$138,559,129.33. Only \$36,015,485.97 of these expenses was offset by program specific revenues. Total revenues exceeded total expenses by \$3,071,637.50.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$4,922,259.31 at June 30, 2010, or 6.3 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.

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

Government-wide Financial Statements

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

The government-wide statements present the District's activities in 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.

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

Fund Financial Statements

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

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

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

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses the enterprise funds to account for NEFEC programs, including the Employee Benefits, Risk Management (Property/Casualty), ARRA Economic Stimulus, as well as other programs and services.

- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses such a fund to account for the Putnam County District School Board Health Insurance Program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Current and Other Assets	\$ 19,362,797.17	\$ 17,004,244.23	\$ 43,481,675.84	\$ 40,325,023.63	\$ 62,844,473.01	\$ 57,329,267.86
Capital Assets	56,670,137.07	57,615,149.10	2,937,574.72	1,773,598.96	59,607,711.79	59,388,748.06
Total Assets	76,032,934.24	74,619,393.33	46,419,250.56	42,098,622.59	122,452,184.80	116,718,015.92
Other Liabilities	2,429,706.13	2,752,619.51	181,770.22	2,677,097.28	4,241,476.35	5,429,716.79
Long-Term Liabilities	17,472,134.81	14,905,094.44	11,616,010.60	10,332,279.15	29,088,145.41	25,237,373.59
Total Liabilities	19,901,840.94	17,657,713.95	13,427,780.82	13,009,376.43	33,329,621.76	30,667,090.38
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	53,380,066.92	55,008,037.05	2,937,574.72	1,773,598.96	56,317,641.64	56,781,636.01
Restricted	8,869,976.30	10,234,748.41	23,243,426.03	20,818,929.05	32,113,402.33	31,053,677.46
Unrestricted (Deficit)	(6,118,949.92)	(8,281,106.08)	6,810,468.99	6,496,718.15	691,519.07	(1,784,387.93)
Total Net Assets	\$ 56,131,093.30	\$ 56,961,679.38	\$ 32,991,469.74	\$ 29,089,246.16	\$ 89,122,563.04	\$ 86,050,925.54

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

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

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

	Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Program Revenues:						
Charges for Services	\$ 1,039,012.13	\$ 1,185,609.91	\$ 25,603,789.61	\$ 21,749,369.31	\$ 26,642,801.74	\$ 22,934,979.22
Operating Grants and Contributions	8,114,839.41	7,947,014.98			8,114,839.41	7,947,014.98
Capital Grants and Contributions	1,257,844.82	1,147,343.02			1,257,844.82	1,147,343.02
General Revenues:						
Property Taxes, Levied for Operational Purposes	25,801,757.91	24,567,323.61			25,801,757.91	24,567,323.61
Property Taxes, Levied for Capital Projects	6,131,689.54	7,225,729.17			6,131,689.54	7,225,729.17
Grants and Contributions Not Restricted to Specific Programs	64,722,394.46	61,206,821.73	6,689,908.02	11,364,861.22	71,412,302.48	72,571,682.95
Unrestricted Investment Earnings	256,767.84	259,278.32	396,962.28	(183,566.86)	653,730.12	75,711.46
Miscellaneous	1615,800.81	1,446,721.34			1,615,800.81	1,446,721.34
Total Revenues	108,940,106.92	104,985,842.08	32,690,659.91	32,930,663.67	141,630,766.83	137,916,505.75
Functions/Program Expenses:						
Instruction	56,247,838.16	57,490,628.38			56,247,838.16	57,490,628.38
Pupil Personnel Services	4,608,536.42	4,368,353.94			4,608,536.42	4,368,353.94
Instructional Media Services	3,041,458.43	2,291,838.67			3,041,458.43	2,291,838.67
Instruction and Curriculum Development Services	4,190,181.47	4,851,162.06			4,190,181.47	4,851,162.06
Instructional Staff Training Services	2,082,453.40	1,175,055.69			2,082,453.40	1,175,055.69
School Board	559,616.54	773,709.71			559,616.54	773,709.71
General Administration	1,870,803.70	684,658.94			1,870,803.70	684,658.94
School Administration	6,415,178.09	6,391,322.65			6,415,178.09	6,391,322.65
Facilities Acquisition and Construction	14,502.20	3,457,725.83			14,502.20	3,457,725.83
Fiscal Services	751,093.19	675,884.26			751,093.19	675,884.26
Food Services	6,245,806.77	6,046,417.43			6,245,806.77	6,046,417.43
Central Services	1,055,973.43	1,125,560.66			1,055,973.43	1,125,560.66
Pupil Transportation Services	5,806,747.79	6,475,348.15			5,806,747.79	6,475,348.15
Operation of Plant	7,578,016.15	7,510,380.16			7,578,016.15	7,510,380.16
Maintenance of Plant	3,465,665.69	3,061,585.63			3,465,665.69	3,061,585.63
Administrative Technology Services	442,109.01	257,066.77			442,109.01	257,066.77
Community Services	71,768.19	5,847.61			71,768.19	5,847.61
Unallocated Interest on Long-Term Debt	150,270.65	145,364.12			150,270.65	145,364.12
Unallocated Depreciation Expense	5,172,673.72	5,124,201.44			5,172,673.72	5,124,201.44
NEFEC Employee Benefits Program			84,274.65	68,534.99	84,274.65	68,534.99
NEFEC Risk Management Program			13,202,268.31	11,825,638.66	13,202,268.31	11,825,638.66
NEFEC ARRA Economic Stimulus Fund			983,677.49		983,677.49	
NEFEC Other Programs			14,518,215.88	18,310,063.71	14,518,215.88	18,310,063.71
Total Functions/Program Expenses	109,770,693.00	111,912,112.10	28,788,436.33	30,204,237.36	138,559,129.33	142,116,349.46
Increase (Decrease) in Net Assets	\$ (830,586.08)	\$ (6,926,270.02)	\$ 3,902,223.58	\$ 2,726,426.31	\$ 3,071,637.50	\$ (4,199,843.71)

The largest revenue source is the State of Florida. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Although FEFP funding continued to decrease due to declining enrollment, additional funding was received from the American Recovery and Reinvestment Act (ARRA) through the State of Florida, resulting in the increase in grants and contracts not restricted to specific programs. Other State revenues are primarily for required carryover programs and for the acquisition, construction, and maintenance of educational facilities.

Property taxes levied for operational purposes increased \$1,234,434.30, or 5 percent, due to an increase in the basic discretionary local effort, while property taxes levied for capital projects decreased by \$1,094,039.63, or 15.1 percent, because of a decrease in the millage rate from 1.75 to 1.499 for capital improvements.

General administration costs increased \$1,186,144.76 due, in part, to an increase in employee group insurance benefit costs charged to this function.

Facilities acquisition and construction expenses decreased \$3,443,223.63 due to a decrease in noncapitalized maintenance costs expended on facilities.

For the business-type activities, charges for services increased \$3,854,420.30, due mainly to revenue associated with the lease of the new enterprise resource software to member districts. Additionally, grants and contributions not restricted to specific programs decreased \$4,674,953.20 million, mainly because of reduced Federal and State grants.

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 \$4,922,259.31, while the total fund balance is \$9,182,075.62. The unreserved fund balance increased by \$1,420,364.87, while the total fund balance increased by \$4,265,989.22 during the fiscal year. The key factor in this increase was that expenditures for instruction decreased \$6,950,903.88, or 13.5 percent, from the 2008-09 fiscal year. This decrease was the result of tight fiscal management and the use of ARRA funds for teacher salaries.

The Florida Department of Education (FDOE) requires school districts to report the Special Revenue – ARRA Economic Stimulus Fund as a major fund to account for certain Federal grant program resources related to ARRA. During the 2009-10 fiscal year, this fund reported revenues and expenditures of \$6,962,580.96 each, and the funding was used mainly for instruction.

The Special Revenue – Other Fund accounts for Federal grants administered through the FDOE cash advance system. For the 2009-10 fiscal year, this fund reported revenues and expenditures of \$10,996,331.62 each, a slight increase over the 2008-09 fiscal year.

Proprietary Funds

The Enterprise Funds have combined net assets of \$32,991,469.74, representing an increase of \$3,902,223.58 in net assets during the current fiscal year. The main causes for the increase are:

- NEFEC Employee Benefits Program net assets increased by \$33,922.41 because charges for services and premium revenues exceeded operating program expenses. The employee benefits now include activities of a self-insurance disability program.
- NEFEC Risk Management Program net assets increased by \$2,387,329.67 over the 2008-09 fiscal year. The increase is primarily attributable to premium revenues exceeding various operating expenses. Premiums charged are based on estimates to cover program expenses and to maintain adequate reserves.
- NEFEC ARRA Economic Stimulus Fund is also subject to the above-described reporting and accounting requirements that apply to the Special Revenue – ARRA Economic Stimulus Fund. During the 2009-10 fiscal year, the NEFEC ARRA Economic Stimulus Fund reported revenues and expenses of \$983,677.49 each, and funding was used mainly for salaries.
- NEFEC Other Programs Fund net assets increased by \$1,480,971.50 over the 2008-09 fiscal year. The increase is attributable to the recognition of revenue from certain member districts for enterprise resource software acquired under a capital lease.
- The internal service fund's reported revenues and expenses pertain to the District's health insurance program.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2009-10 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting of \$1,151,370.77, or 1.5 percent. Final appropriations were more than the original budgeted amounts by \$98,311.33. Budget revisions were due primarily to changes in estimated State funding.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$5,814,758.03, or 7.5 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures, such as paying for instructional positions using ARRA moneys, implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$7,343,802.63.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2010, was \$59,607,711.79. This includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; and computer software.

Major capital asset events during the current fiscal year included the acquisition of new finance, human resource, and student records enterprise resource software.

Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

At June 30, 2010, the District had outstanding bonds payable of \$2,780,000 and a capital lease of \$510,070.75. During the fiscal year, bonds totaling \$250,000 were retired.

During the 2009-10 fiscal year, the District participated in the State Board of Education's issuance of State School Bonds, Series 2009A, for \$165,000, which was used to refund \$210,000 in outstanding State School Bonds, Series 1999A. The District also entered into a capital lease of \$960,809.87 to purchase enterprise resource management software.

OTHER MATTERS OF SIGNIFICANCE

The School Board of Putnam County is facing uncertain economic times. The impact of pending budget reductions at the State level remains unknown at this time. In light of these uncertain economic times, we continually monitor our financial position. The School Board must continue to be vigilant in monitoring its resources to meet the demands of our public education system.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 15,541,850.71	\$ 38,971,825.85	\$ 54,513,676.56	\$ 310,237.00
Cash with Fiscal Agent		100,000.00	100,000.00	
Investments	119,359.89	760,585.75	879,945.64	
Accounts Receivable				7,100.00
Internal Balances	(510,070.15)	510,070.15		
Due from Other Agencies	3,582,262.81	903,817.01	4,486,079.82	
Due from Excess Insurer		625,092.23	625,092.23	
Prepaid Items				130,094.00
Inventories	629,393.91		629,393.91	
Lease Payments Receivable		1,610,284.85	1,610,284.85	
Capital Assets:				
Nondepreciable Capital Assets	2,997,747.64	45,000.00	3,042,747.64	
Depreciable Capital Assets, Net	53,672,389.43	2,892,574.72	56,564,964.15	161,441.00
TOTAL ASSETS	\$ 76,032,934.24	\$ 46,419,250.56	\$ 122,452,184.80	\$ 608,872.00
LIABILITIES				
Salaries and Benefits Payable	\$ 756,796.64	\$ 68,011.94	\$ 824,808.58	\$
Accounts Payable	1,394,140.49	771,585.71	2,165,726.20	21,838.00
Due to Other Agencies		864,476.39	864,476.39	
Deferred Revenue	278,769.00	107,696.18	386,465.18	
Long-Term Liabilities:				
Portion Due Within One Year	2,425,000.00	5,224,513.67	7,649,513.67	1,024.00
Portion Due After One Year	15,047,134.81	6,391,496.93	21,438,631.74	
Total Liabilities	19,901,840.94	13,427,780.82	33,329,621.76	22,862.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	53,380,066.92	2,937,574.72	56,317,641.64	161,441.00
Restricted for:				
State Required Carryover Programs	608,890.73		608,890.73	
Debt Service	549,622.83		549,622.83	
Capital Projects	6,269,807.69		6,269,807.69	
Food Service	1,290,663.02		1,290,663.02	
Risk Management Programs		23,243,426.03	23,243,426.03	
Permanent Funds	150,992.03		150,992.03	
Unrestricted (Deficit)	(6,118,949.92)	6,810,468.99	691,519.07	424,569.00
Total Net Assets	56,131,093.30	32,991,469.74	89,122,563.04	586,010.00
TOTAL LIABILITIES AND NET ASSETS	\$ 76,032,934.24	\$ 46,419,250.56	\$ 122,452,184.80	\$ 608,872.00

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

**PUTNAM 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	\$ 56,247,838.16	\$ 189,404.09	\$	\$
Pupil Personnel Services	4,608,536.42			
Instructional Media Services	3,041,458.43			
Instruction and Curriculum Development Services	4,190,181.47			
Instructional Staff Training Services	2,082,453.40			
School Board	559,616.54			
General Administration	1,870,803.70			
School Administration	6,415,178.09			
Facilities Acquisition and Construction	14,502.20			84,977.07
Fiscal Services	751,093.19			
Food Services	6,245,806.77	838,864.41	5,458,429.41	
Central Services	1,055,973.43			
Pupil Transportation Services	5,806,747.79	10,743.63	2,656,410.00	
Operation of Plant	7,578,016.15			
Maintenance of Plant	3,465,665.69			751,883.00
Administrative Technology Services	442,109.01			
Community Services	71,768.19			
Unallocated Interest on Long-Term Debt	150,270.65			420,984.75
Unallocated Depreciation Expense*	5,172,673.72			
Total Governmental Activities	109,770,693.00	1,039,012.13	8,114,839.41	1,257,844.82
Business-Type Activities:				
NEFEC Employee Benefits Program	84,274.65	110,566.20		
NEFEC Risk Management (Property/Casualty) Program	13,202,268.31	15,309,617.72		
NEFEC ARRA Economic Stimulus Fund	983,677.49			
NEFEC Other Programs	14,518,215.88	10,183,605.69		
Total Business-Type Activities	28,788,436.33	25,603,789.61		
Total Primary Government	\$ 138,559,129.33	\$ 26,642,801.74	\$ 8,114,839.41	\$ 1,257,844.82
Component Unit:				
The Children's Reading Center Charter School	\$ 1,238,792.00	\$ 0.00	\$ 0.00	\$ 79,968.00

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 pupil transportation services function.

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (56,058,434.07)	\$	\$ (56,058,434.07)	\$
(4,608,536.42)		(4,608,536.42)	
(3,041,458.43)		(3,041,458.43)	
(4,190,181.47)		(4,190,181.47)	
(2,082,453.40)		(2,082,453.40)	
(559,616.54)		(559,616.54)	
(1,870,803.70)		(1,870,803.70)	
(6,415,178.09)		(6,415,178.09)	
70,474.87		70,474.87	
(751,093.19)		(751,093.19)	
51,487.05		51,487.05	
(1,055,973.43)		(1,055,973.43)	
(3,139,594.16)		(3,139,594.16)	
(7,578,016.15)		(7,578,016.15)	
(2,713,782.69)		(2,713,782.69)	
(442,109.01)		(442,109.01)	
(71,768.19)		(71,768.19)	
270,714.10		270,714.10	
(5,172,673.72)		(5,172,673.72)	
(99,358,996.64)		(99,358,996.64)	
	26,291.55	26,291.55	
	2,107,349.41	2,107,349.41	
	(983,677.49)	(983,677.49)	
	(4,334,610.19)	(4,334,610.19)	
	(3,184,646.72)	(3,184,646.72)	
(99,358,996.64)	(3,184,646.72)	(102,543,643.36)	
			(1,158,824.00)
25,801,757.91		25,801,757.91	
6,131,689.54		6,131,689.54	
64,722,394.46	6,689,908.02	71,412,302.48	1,096,993.00
256,767.84	396,962.28	653,730.12	3,890.00
1,615,800.81		1,615,800.81	12,414.00
98,528,410.56	7,086,870.30	105,615,280.86	1,113,297.00
(830,586.08)	3,902,223.58	3,071,637.50	(45,527.00)
56,961,679.38	29,089,246.16	86,050,925.54	631,537.00
\$ 56,131,093.30	\$ 32,991,469.74	\$ 89,122,563.04	\$ 586,010.00

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 8,045,624.45	\$	\$
Investments	2,804.50		
Due from Other Funds	1,035,821.68		
Due from Other Agencies	698,691.20	977,566.96	761,947.67
Inventories	461,840.49		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 10,244,782.32</u>	<u>\$ 977,566.96</u>	<u>\$ 761,947.67</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 537,902.88	\$ 118,502.68	\$ 80,808.69
Accounts Payable	524,803.82	292,118.70	217,415.95
Due to Other Funds		566,945.58	463,723.03
Deferred Revenue			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,062,706.70</u>	<u>977,566.96</u>	<u>761,947.67</u>
Fund Balances:			
Reserved for State Required Carryover Programs	608,890.73		
Reserved for Encumbrances	559,654.25		
Reserved for Inventories	461,840.49		
Reserved for Debt Service			
Reserved for Permanent Funds			
Reserved for Capital Improvement Tax Projects	827,785.29		
Reserved for Employee Group Insurance	1,801,645.55		
Unreserved, Reported in:			
General Fund	4,922,259.31		
Special Revenue Funds			
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>9,182,075.62</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,244,782.32</u>	<u>\$ 977,566.96</u>	<u>\$ 761,947.67</u>

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 7,496,226.26	\$ 15,541,850.71
107,228.76	110,033.26
	1,035,821.68
1,143,749.97	3,581,955.80
167,553.42	629,393.91
<u> </u>	<u> </u>
\$ 8,914,758.41	\$ 20,899,055.36
<u> </u>	<u> </u>
\$ 18,990.01	\$ 756,204.26
355,913.83	1,390,252.30
	1,030,668.61
278,769.00	278,769.00
<u> </u>	<u> </u>
653,672.84	3,455,894.17
<u> </u>	<u> </u>
	608,890.73
675,473.25	1,235,127.50
167,553.42	629,393.91
549,622.83	549,622.83
150,992.03	150,992.03
	827,785.29
	1,801,645.55
	4,922,259.31
1,083,298.59	1,083,298.59
5,634,145.45	5,634,145.45
<u> </u>	<u> </u>
8,261,085.57	17,443,161.19
<u> </u>	<u> </u>
\$ 8,914,758.41	\$ 20,899,055.36
<u> </u>	<u> </u>

**PUTNAM 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	\$ 17,443,161.19
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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.	56,670,137.07
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Internal balances, representing capital lease payables, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(510,070.15)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ 2,780,000.00	
Other Postemployment Benefits Payable	4,067,130.81	
Compensated Absences Payable	10,625,004.00	
	(17,472,134.81)	

Total Net Assets - Governmental Activities	\$ 56,131,093.30
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 297,455.93	\$	\$
Federal Through State and Local	579,151.21	6,962,580.96	10,996,331.62
State	48,505,293.08		
Local:			
Property Taxes	25,801,757.91		
Charges for Services - Food Service			
Miscellaneous	1,966,386.23		
Total Revenues	77,150,044.36	6,962,580.96	10,996,331.62
Expenditures			
Current - Education:			
Instruction	44,489,761.11	4,573,288.42	5,595,589.89
Pupil Personnel Services	3,358,896.25	275,180.14	820,757.22
Instructional Media Services	2,630,066.63	200,825.01	131,960.25
Instruction and Curriculum Development Services	1,601,691.47	164,176.14	2,311,969.48
Instructional Staff Training Services	191,742.35	280,960.43	1,595,044.83
School Board	548,144.14		
General Administration	594,265.09	307,376.51	328,920.28
School Administration	6,182,589.81	5,464.00	
Facilities Acquisition and Construction	14,502.20		
Fiscal Services	683,317.73		
Food Services	19,618.78	18,668.17	
Central Services	1,020,740.03		
Pupil Transportation Services	4,753,525.66	39,800.34	199,444.71
Operation of Plant	7,156,386.96	289,405.29	4,917.97
Maintenance of Plant	3,350,259.54	40,091.59	
Administrative Technology Services	428,862.31		
Community Services		62,326.29	7,726.99
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	960,809.87	237,008.63	
Debt Service:			
Principal		450,739.72	
Interest and Fiscal Charges		17,270.28	
Total Expenditures	77,985,179.93	6,962,580.96	10,996,331.62
Excess (Deficiency) of Revenues Over Expenditures	(835,135.57)		
Other Financing Sources (Uses)			
Transfers In	4,793,141.00		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Inception of Capital Lease	960,809.87		
Insurance Loss Recoveries	10,248.80		
Payments to Escrow Agent			
Transfers Out	(663,074.88)		
Total Other Financing Sources (Uses)	5,101,124.79		
Net Change in Fund Balances	4,265,989.22		
Fund Balances, Beginning	4,916,086.40		
Fund Balances, Ending	\$ 9,182,075.62	\$ 0.00	\$ 0.00

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

Other Governmental Funds	Total Governmental Funds
\$	\$
5,288,429.41	297,455.93
1,497,097.78	23,826,493.20
	50,002,390.86
6,131,689.54	31,933,447.45
838,864.41	838,864.41
63,200.00	2,029,586.23
13,819,281.14	108,928,238.08
	54,658,639.42
	4,454,833.61
	2,962,851.89
	4,077,837.09
	2,067,747.61
	548,144.14
1,408.96	1,231,970.84
	6,188,053.81
	14,502.20
	683,317.73
6,102,450.96	6,140,737.91
	1,020,740.03
	4,992,770.71
	7,450,710.22
	3,390,351.13
	428,862.31
	70,053.28
2,604,439.32	2,604,439.32
1,113,754.53	2,311,573.03
280,000.00	730,739.72
149,498.60	166,768.88
10,251,552.37	106,195,644.88
3,567,728.77	2,732,593.20
	4,793,141.00
165,000.00	165,000.00
16,406.85	16,406.85
	960,809.87
	10,248.80
(179,908.62)	(179,908.62)
(4,793,141.00)	(5,456,215.88)
(4,791,642.77)	309,482.02
(1,223,914.00)	3,042,075.22
9,484,999.57	14,401,085.97
\$ 8,261,085.57	\$ 17,443,161.19

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

Net Change in Fund Balances - Governmental Funds **\$ 3,042,075.22**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following details the amount of depreciation expense in excess of capital outlays in the current period.

Fixed Capital Outlay - Facilities Acquisition and Construction	\$ 2,604,439.32	
Fixed Capital Outlay - Other Capital Outlay	2,311,573.03	
Depreciation Expense	<u>(5,861,024.38)</u>	(945,012.03)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments in the current period.

Inception of Capital Lease (Internal Balances)	\$ (960,809.87)	
Refunding Bonds Issued	(165,000.00)	
Capital Lease Payments (Internal Balances)	450,739.72	
Bond Payments	<u>460,000.00</u>	(215,070.15)

Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the statement of activities. This is the decrease in accrued interest payable for the current fiscal year. 149,461.25

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. (1,771,109.56)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (1,090,930.81)

Change in Net Assets - Governmental Activities **\$ (830,586.08)**

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2010**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	NEFEC Employee Benefits Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC ARRA Economic Stimulus	NEFEC Other Programs	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 1,274,778.06	\$ 31,692,798.65	\$	\$ 6,004,249.14	\$ 38,971,825.85	\$
Cash with Fiscal Agent		100,000.00			100,000.00	
Due From Other Funds				37,931.42	37,931.42	
Due From Other Agencies	162.80	520.00	37,931.42	865,202.79	903,817.01	307.01
Lease Payments Receivable				1,570,112.00	1,570,112.00	
Due From Excess Insurer		625,092.23			625,092.23	
Total Current Assets	1,274,940.86	32,418,410.88	37,931.42	8,477,495.35	42,208,778.51	307.01
Noncurrent Assets:						
Investments	10,883.08	544,447.74		205,254.93	760,585.75	9,326.63
Lease Payments Receivable				550,243.00	550,243.00	
Nondepreciable Capital Assets				45,000.00	45,000.00	
Depreciable Capital Assets, Net	2,599.84	9,812.57		2,880,162.31	2,892,574.72	
Total Noncurrent Assets	13,482.92	554,260.31		3,680,660.24	4,248,403.47	9,326.63
TOTAL ASSETS	\$ 1,288,423.78	\$ 32,972,671.19	\$ 37,931.42	\$ 12,158,155.59	\$ 46,457,181.98	\$ 9,633.64
LIABILITIES						
Current Liabilities:						
Salaries and Benefits Payable	\$ 1,229.49	\$ 2,598.61	\$	\$ 64,183.84	\$ 68,011.94	\$ 592.38
Accounts Payable	14,814.84	18,032.74		738,738.13	771,585.71	3,888.19
Due to Other Funds			37,931.42		37,931.42	5,153.07
Due to Other Agencies	864,476.39				864,476.39	
Deferred Revenue				107,696.18	107,696.18	
Compensated Absences Payable	1,688.36	7,152.89		95,672.42	104,513.67	
Estimated Insurance Claims Payable		5,120,000.00			5,120,000.00	
Total Current Liabilities	882,209.08	5,147,784.24	37,931.42	1,006,290.57	7,074,215.31	9,633.64
Noncurrent Liabilities:						
Compensated Absences Payable	16,999.92	64,376.00		861,051.82	942,427.74	
Estimated Insurance Claims Payable		4,867,000.00			4,867,000.00	
Other Postemployment Benefits Payable	5,719.67	21,167.62		555,181.90	582,069.19	
Total Noncurrent Liabilities	22,719.59	4,952,543.62		1,416,233.72	6,391,496.93	
Total Liabilities	904,928.67	10,100,327.86	37,931.42	2,422,524.29	13,465,712.24	9,633.64
NET ASSETS						
Invested in Capital Assets	2,599.84	9,812.57		2,925,162.31	2,937,574.72	
Unrestricted	380,895.27	22,862,530.76		6,810,468.99	30,053,895.02	
Total Net Assets	383,495.11	22,872,343.33		9,735,631.30	32,991,469.74	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,288,423.78	\$ 32,972,671.19	\$ 37,931.42	\$ 12,158,155.59	\$ 46,457,181.98	\$ 9,633.64

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

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

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	NEFEC Employee Benefits Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC ARRA Economic Stimulus	NEFEC Other Programs	Total
OPERATING REVENUES					
Charges for Services	\$ 83,626.20	\$ 284,659.60	\$	\$ 4,641,834.00	\$ 5,010,119.80
Charges for Sales				316,333.73	316,333.73
Premium Revenues	26,940.00	15,024,958.12			15,051,898.12
Other Operating Revenues				5,225,437.96	5,225,437.96
Total Operating Revenues	110,566.20	15,309,617.72		10,183,605.69	25,603,789.61
OPERATING EXPENSES					
Salaries	53,070.44	185,989.13	522,280.36	4,613,611.21	5,374,951.14
Employee Benefits	21,544.66	68,228.47	146,374.81	1,682,278.68	1,918,426.62
Purchased Services	6,024.18	374,729.73	278,849.55	6,080,249.04	6,739,852.50
Energy Services				54,613.82	54,613.82
Materials and Supplies	1,174.99	2,910.01	5,259.89	625,428.39	634,773.28
Capital Outlay	1,160.46	5,797.19	3,758.81	336,269.22	346,985.68
Insurance Claims		5,326,506.40			5,326,506.40
Excess Insurance Premiums		6,805,867.02			6,805,867.02
Other Expenses		430,295.38	27,154.07	525,030.01	982,479.46
Depreciation	1,299.92	1,944.98		600,735.51	603,980.41
Total Operating Expenses	84,274.65	13,202,268.31	983,677.49	14,518,215.88	28,788,436.33
Operating Income (Loss)	26,291.55	2,107,349.41	(983,677.49)	(4,334,610.19)	(3,184,646.72)
NONOPERATING REVENUES					
Interest	7,630.86	279,980.26		109,351.16	396,962.28
Federal Grants			983,677.49	4,899,739.73	5,883,417.22
State Grants				806,490.80	806,490.80
Total Nonoperating Revenues	7,630.86	279,980.26	983,677.49	5,815,581.69	7,086,870.30
Income (Loss) Before Transfers	33,922.41	2,387,329.67		1,480,971.50	3,902,223.58
Transfers In					663,074.88
Change in Net Assets	33,922.41	2,387,329.67		1,480,971.50	3,902,223.58
Total Net Assets - Beginning	349,572.70	20,485,013.66		8,254,659.80	29,089,246.16
Total Net Assets - Ending	\$ 383,495.11	\$ 22,872,343.33	\$ 0.00	\$ 9,735,631.30	\$ 32,991,469.74

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

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

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	NEFEC Employee Benefits Program	NEFEC Risk Management (Property/Casualty) Program	NEFEC ARRA Economic Stimulus	NEFEC Other Programs	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash Received from Board Funds and Participants	\$ 110,566.20	\$ 15,309,617.72	\$	\$ 4,958,167.73	\$ 20,378,351.65	\$ 8,810,910.21
Cash Payments to Suppliers for Goods and Services	(7,592.85)	(7,601,566.59)	(287,868.25)	(8,533,892.14)	(16,430,919.83)	(9,426,506.55)
Cash Payments to Employees for Services	(66,904.08)	(229,605.84)	(668,655.17)	(5,499,302.87)	(6,464,467.96)	(47,219.39)
Cash Payments for Insurance Claims		(4,904,506.40)			(4,904,506.40)	
Cash Received for Other Operating Activities	59,225.00	576,472.04		3,212,779.14	3,848,476.18	4,846.06
Cash Payments for Other Operating Activities			(27,154.07)		(27,154.07)	
Net Cash Provided (Used) by Operating Activities	95,294.27	3,150,410.93	(983,677.49)	(5,862,248.14)	(3,600,220.43)	(657,969.67)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash Received from Federal and State Grants			983,677.49	5,750,248.91	6,733,926.40	
Transfer from Other Funds						663,074.88
Net Cash Provided by Noncapital Financing Activities			983,677.49	5,750,248.91	6,733,926.40	663,074.88
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of Capital Assets				(1,767,956.17)	(1,767,956.17)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Investments	(5,455.45)	(272,929.69)		(102,894.35)	(381,279.49)	(13,847.36)
Interest	12,906.01	543,880.38		208,840.60	765,626.99	6,140.77
Net Cash Provided (Used) by Investing Activities	7,450.56	270,950.69		105,946.25	384,347.50	(7,706.59)
Net Increase (Decrease) in Cash and Cash Equivalents	102,744.83	3,421,361.62		(1,774,009.15)	1,750,097.30	(2,601.38)
Cash and Cash Equivalents, Beginning	1,172,033.23	28,371,437.03		7,778,258.29	37,321,728.55	2,601.38
Cash and Cash Equivalents, Ending	\$ 1,274,778.06	\$ 31,792,798.65	\$ 0.00	\$ 6,004,249.14	\$ 39,071,825.85	\$ 0.00
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 26,291.55	\$ 2,107,349.41	\$ (983,677.49)	\$ (4,334,610.19)	\$ (3,184,646.72)	\$ (664,694.92)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	1,299.92	1,944.98		600,735.51	603,980.41	
Changes in Assets and Liabilities:						
(Increase) Decrease in Due from Other Agencies	105,924.45	7,912.98	(37,931.42)		75,906.01	5,579.07
(Increase) in Lease Payments Receivable				(2,120,355.00)	(2,120,355.00)	
Decrease in Due from Excess Insurers		568,559.06			568,559.06	
Increase (Decrease) in Salaries and Benefits Payable	15.49	(34.93)		(30,547.77)	(30,567.21)	(1,183.85)
Increase (Decrease) in Accounts Payable	14,766.78	15,778.30		(912,301.66)	(881,756.58)	3,063.04
Increase (Decrease) in Due to Other Funds			37,931.42		37,931.42	(733.01)
(Decrease) in Due to Other Agencies	(60,699.45)				(60,699.45)	
Increase in Deferred Revenue				107,696.18	107,696.18	
Increase in Estimated Insurance Claims Payable		422,000.00			422,000.00	
Increase in Compensated Absences Payable	1,975.86	5,733.51		271,952.89	279,662.26	
Increase in Other Postemployment Benefits Payable	5,719.67	21,167.62		555,181.90	582,069.19	
Total Adjustments	69,002.72	1,043,061.52		(1,527,637.95)	(415,573.71)	6,725.25
Net Cash Provided (Used) by Operating Activities	\$ 95,294.27	\$ 3,150,410.93	\$ (983,677.49)	\$ (5,862,248.14)	\$ (3,600,220.43)	\$ (657,969.67)
Cash and Cash Equivalents						
Cash and Cash Equivalents	\$ 1,274,778.06	\$ 31,692,798.65	\$	\$ 6,004,249.14	\$ 38,971,825.85	\$
Cash with Fiscal Agent		100,000.00			100,000.00	
Cash and Cash Equivalents, End of Year	\$ 1,274,778.06	\$ 31,792,798.65	\$ 0.00	\$ 6,004,249.14	\$ 39,071,825.85	\$ 0.00
Noncash Investing, Capital, and Financing Activities						
Change in Fair Value of Investments	\$ 5,275.15	\$ 263,900.12	\$ 0.00	\$ 99,489.44	\$ 368,664.71	\$ 4,520.73

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 693,566
LIABILITIES	
Accounts Payable	\$ 2,108
Assets Held for Others	691,458
TOTAL LIABILITIES	\$ 693,566

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

**PUTNAM 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 Putnam County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Putnam 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 Putnam County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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 Children's Reading Center Charter School is included within the District School Board's reporting entity.

The Children's Reading Center Charter School is presented as a discretely presented component unit in the component unit columns in the government-wide financial statements. The general operating authority of the charter school is contained in Section 1002.33, Florida Statutes. The charter school is owned by The Children's Reading Center, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The charter school operates under a charter established pursuant to a contract between The Children's Reading Center, Inc., and the Putnam County District School Board, its sponsor. The current charter is effective until June 30, 2015; at the end of that term, the District may choose not to renew under grounds specified in the charter. During the term of the charter, the District may terminate the charter if good cause is shown. The charter school is considered a component unit of the District because it is fiscally dependent on the District to levy taxes for its support. The financial data reported in the accompanying financial statements was derived from the audit report of the charter school for the fiscal year ended June 30, 2010, which is available at the District's administrative offices.

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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

Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major enterprise funds:

- NEFEC Employee Benefits Program – to account for the North East Florida Educational Consortium (NEFEC) employee benefits self-insurance program for which the District is fiscal agent.
- NEFEC Risk Management (Property/Casualty) Program – to account for the NEFEC property/casualty self-insurance program for which the District is fiscal agent.
- NEFEC ARRA Economic Stimulus Fund - to account for certain Federal grant program resources related to ARRA which are administered by NEFEC.
- NEFEC Other Programs – to account for the financial activities of NEFEC not accounted for in another fund.

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

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

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

➤ **Basis of Accounting**

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

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

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

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

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

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. The statement of cash flows also considers as cash and cash equivalents those amounts on deposit with fiscal agents. Investments classified as cash equivalents include a money market mutual fund and amounts

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

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.

Amounts reported as investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys used to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District; the Fund B Surplus Funds Trust Fund (Fund B) investment pool created by Section 218.417, Florida Statutes; and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission (SEC) Rule 2a7-like external investment pool, 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 the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balances within Florida PRIME. Fund B investments are reported at fair value, which is amortized cost.

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

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

➤ **Inventories**

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

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	10 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued, as well as the premiums on debt issued are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay 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 Putnam County Property Appraiser, and property taxes are collected by the Putnam County Tax Collector.

The Board adopted the 2009 tax levy on September 15, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	\$ 30,083.15
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	803,119.78
Debt Service Accounts	6 Months	76,280.86
Dreyfus Cash Management - Institutional Shares (1)	51 Day Average	45,820,718.65
Common Stock		545.00
Total Investments, Primary Government		<u>\$ 46,730,747.44</u>

Note: (1) Investments considered cash and cash equivalents for financial reporting purposes.

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

Interest Rate Risk

- The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME and Dreyfus Cash Management – Institutional Shares had weighted average days to maturity (WAM) of 46 days and 51 days, respectively, 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 a 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 a 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; SEC 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 Board has adopted an investment policy that authorizes investing in qualified public depositories, certificates of deposit, time deposits, securities of the United States Government, investment pools managed and directed by an approved agency of the State, and certain forms of investments authorized in accordance with Section 218.415, Florida Statutes.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in the Dreyfus Cash Management - Institutional Shares is rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.

4. LEASE PAYMENTS RECEIVABLE

The North East Florida Educational Consortium has procured and leased fully integrated finance, human resource, and student records enterprise resource software to certain member districts, including Putnam County School District (See Note 8). The value of the software leased to member districts totaled \$3,804,512.30 with an imputed interest rate of 4.5 percent. The present value of minimum lease payments to be received and interest thereon as of June 30 are as follows:

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,570,112.00	\$ 1,483,407.49	\$ 86,704.51
2012	550,243.00	529,251.33	20,991.67
Total Minimum Lease Payments	<u>\$ 2,120,355.00</u>	<u>\$ 2,012,658.82</u>	<u>\$ 107,696.18</u>

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,546,386.35	\$	\$	\$1,546,386.35
Construction in Progress	2,062,991.39	94,676.99	706,307.09	1,451,361.29
Total Capital Assets Not Being Depreciated	3,609,377.74	94,676.99	706,307.09	2,997,747.64
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,550,273.49	34,458.22		6,584,731.71
Buildings and Fixed Equipment	114,231,386.14	3,181,611.20		117,412,997.34
Furniture, Fixtures, and Equipment	13,143,521.21	924,077.02	446,291.03	13,621,307.20
Motor Vehicles	8,797,914.54	388,488.55	492,440.80	8,693,962.29
Property Under Capital Lease		960,809.87		960,809.87
Computer Software	301,024.77	38,197.59		339,222.36
Total Capital Assets Being Depreciated	143,024,120.15	5,527,642.45	938,731.83	147,613,030.77
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,171,571.98	244,094.48		4,415,666.46
Buildings and Fixed Equipment	68,709,000.24	3,797,208.66		72,506,208.90
Furniture, Fixtures, and Equipment	9,482,571.21	1,121,529.06	446,291.03	10,157,809.24
Motor Vehicles	6,362,988.59	688,350.66	492,440.80	6,558,898.45
Computer Software	292,216.77	9,841.52		302,058.29
Total Accumulated Depreciation	89,018,348.79	5,861,024.38	938,731.83	93,940,641.34
Total Capital Assets Being Depreciated, Net	54,005,771.36	(333,381.93)		53,672,389.43
Governmental Activities Capital Assets, Net	<u>\$ 57,615,149.10</u>	<u>\$ (238,704.94)</u>	<u>\$ 706,307.09</u>	<u>\$ 56,670,137.07</u>

The class of property under capital lease is presented in Note 8.

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 45,000.00	\$	\$	\$ 45,000.00
Capital Assets Being Depreciated:				
Buildings and Fixed Equipment	2,289,686.62			2,289,686.62
Improvements Other Than Buildings	5,343.00			5,343.00
Furniture, Fixtures, and Equipment	994,690.17	251,919.61		1,246,609.78
Motor Vehicles	69,160.00			69,160.00
Computer Software	942,535.41	1,516,036.56		2,458,571.97
Total Capital Assets Being Depreciated	4,301,415.20	1,767,956.17		6,069,371.37
Less Accumulated Depreciation for:				
Buildings and Fixed Equipment	1,090,996.57	84,748.28		1,175,744.85
Improvements Other Than Buildings	1,068.60	1,068.60		2,137.20
Furniture, Fixtures, and Equipment	822,181.30	121,519.46		943,700.76
Motor Vehicles	49,540.00	9,810.00		59,350.00
Computer Software	609,029.77	386,834.07		995,863.84
Total Accumulated Depreciation	2,572,816.24	603,980.41		3,176,796.65
Total Capital Assets Being Depreciated, Net	1,728,598.96	1,163,975.76		2,892,574.72
Business-Type Activities Capital Assets, Net	<u>\$ 1,773,598.96</u>	<u>\$ 1,163,975.76</u>	<u>\$ 0.00</u>	<u>\$ 2,937,574.72</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 688,350.66
Unallocated	5,172,673.72
Total Depreciation Expense - Governmental Activities	<u>\$ 5,861,024.38</u>
BUSINESS-TYPE ACTIVITIES	
North East Florida Educational Consortium:	
Employee Benefits Program	\$ 1,299.92
Risk Management Programs	1,944.98
Other Programs	600,735.51
Total Depreciation Expense - Business-Type Activities	<u>\$ 603,980.41</u>

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

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	\$ 1,065,000	4.000 - 5.375	2015
Series 2004A	370,000	3.350 - 4.625	2024
Series 2005A	55,000	4.0 - 5.0	2025
Series 2005A, Refunding	255,000	5.0	2017
Series 2005B, Refunding	250,000	5.0	2018
Series 2008A	635,000	3.50 - 5.00	2028
Series 2009A, Refunding	150,000	3.00 - 5.00	2019
Total Bonds Payable	<u>\$ 2,780,000</u>		

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 434,555.00	\$ 300,000.00	\$ 134,555.00
2012	444,671.25	325,000.00	119,671.25
2013	436,108.75	330,000.00	106,108.75
2014	449,402.50	360,000.00	89,402.50
2015	420,946.25	350,000.00	70,946.25
2016-2020	742,827.50	540,000.00	202,827.50
2021-2025	492,883.75	395,000.00	97,883.75
2026-2028	197,525.00	180,000.00	17,525.00
Total State School Bonds	<u>\$ 3,618,920.00</u>	<u>\$ 2,780,000.00</u>	<u>\$ 838,920.00</u>

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

7. 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					
Bonds Payable	\$ 3,075,000.00	\$ 165,000.00	\$ 460,000.00	\$ 2,780,000.00	\$ 300,000.00
Compensated Absences Payable	8,853,894.44	5,467,172.82	3,696,063.26	10,625,004.00	2,125,000.00
Other Postemployment Benefits Payable	2,976,200.00	1,758,230.00	667,299.19	4,067,130.81	
Total Governmental Activities	<u>\$ 14,905,094.44</u>	<u>\$ 7,390,402.82</u>	<u>\$ 4,823,362.45</u>	<u>\$ 17,472,134.81</u>	<u>\$ 2,425,000.00</u>
BUSINESS-TYPE ACTIVITIES					
Estimated Insurance Claims Payable	\$ 9,565,000.00	\$ 5,326,506.40	\$ 4,904,506.40	\$ 9,987,000.00	\$ 5,120,000.00
Compensated Absences Payable	767,279.15	489,105.98	209,443.72	1,046,941.41	104,513.67
Other Postemployment Benefits Payable		677,570.00	95,500.81	582,069.19	
Total Business-Type Activities	<u>\$ 10,332,279.15</u>	<u>\$ 6,493,182.38</u>	<u>\$ 5,209,450.93</u>	<u>\$ 11,616,010.60</u>	<u>\$ 5,224,513.67</u>

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

8. INTERNAL BALANCES AND INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Internal Balances. Enterprise resource software with a cost of \$960,809.87 is being acquired by the District from the North East Florida Educational Consortium (NEFEC) under a capital lease with an imputed interest rate of 4.5 percent. The capital lease is reported as an internal balance due to NEFEC by the District, and future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 394,964.00	\$ 376,191.40	\$ 18,772.60
2012	138,415.00	133,878.75	4,536.25
Total Minimum Lease Payments	<u>\$ 533,379.00</u>	<u>\$ 510,070.15</u>	<u>\$ 23,308.85</u>

The following is a summary of changes in internal balances:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due in One Year
Internal Balances	<u>\$ 0.00</u>	<u>\$ 960,809.87</u>	<u>\$ 450,739.72</u>	<u>\$ 510,070.15</u>	<u>\$ 376,191.40</u>

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

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

Funds	Interfund	
	Receivables	Payables
Major Governmental:		
General	\$ 1,035,821.68	\$
Special Revenue:		
ARRA Economic Stimulus		566,945.58
Other		463,723.03
Major Enterprise:		
NEFEC ARRA Economic Stimulus		37,931.42
NEFEC Other	37,931.42	
Internal Service		5,153.07
Total	<u>\$ 1,073,753.10</u>	<u>\$ 1,073,753.10</u>

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 4,793,141.00	\$ 663,074.88
Nonmajor Governmental		4,793,141.00
Internal Service	663,074.88	
Total	<u>\$ 5,456,215.88</u>	<u>\$ 5,456,215.88</u>

Transfers from the nonmajor governmental funds to the General Fund were for facilities maintenance work and property casualty insurance premiums. Transfers from the General Fund to the internal service fund were to cover a shortage in employee health insurance premiums.

9. 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.

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

Because revenues of grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund total \$153,422.90 and \$52,876.26, respectively, at June 30, 2010.

10. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Governmental Funds:	
Florida Education Finance Program:	
District School Fund	\$ 27,187,812.00
Transportation	2,656,410.00
Supplemental Academic Instruction	2,847,638.00
Instructional Materials	906,188.00
Reading Allocation	467,025.00
Safe Schools	383,217.00
Florida Teachers Lead	143,189.00
Categorical Educational Program - Class Size Reduction	11,741,892.00
Preschool Projects	956,577.31
Gross Receipts Tax (Public Education Capital Outlay)	751,883.00
Workforce Development Program	448,137.00
School Recognition	433,204.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	420,739.46
Food Service Supplement	135,538.00
Miscellaneous	522,941.09
Subtotal - Governmental	<u>50,002,390.86</u>
Enterprise Funds:	
Regional Consortium Services Grant	576,874.42
Working on Gifted Issues	132,844.00
Other State Grants and Contracts	96,772.38
Subtotal - Enterprise	<u>806,490.80</u>
Total	<u><u>\$ 50,808,881.66</u></u>

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

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

11. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.316	\$ 22,483,038.97
Basic Discretionary Local Effort	0.748	3,163,527.68
Critical Operating Needs	0.250	1,057,328.77
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.499	6,339,743.31
Total	<u>7.813</u>	<u>\$33,043,638.73</u>

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

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

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

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

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$6,533,013.56, \$6,220,002.79, and \$6,348,091.47, respectively, which were equal to the required contributions for each fiscal year. There were 141 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$518,296.11.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

13. 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, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board Policy 6.215. The benefits provided under this defined benefit plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the District and may be amended by Board action. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 185 retirees received postemployment benefits. The District provided required contributions of \$762,800 toward the annual OPEB cost, net of retiree contributions totaling \$777,459, which represents 1.2 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	\$ 1,495,670
Amortization of Unfunded Actuarial Accrued Liability	836,461
Interest on Normal Cost and Amortization	93,285
Annual Required Contribution	2,425,416
Interest on Net OPEB Obligation	119,048
Adjustment to Annual Required Contribution	(108,664)
Annual OPEB Cost (Expense)	2,435,800
Contribution Toward the OPEB Cost	(762,800)
Increase in Net OPEB Obligation	1,673,000
Net OPEB Obligation, Beginning of Year	2,976,200
Net OPEB Obligation, End of Year	<u>\$ 4,649,200</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010, and the preceding two years, were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2007-08	\$ 2,614,200	\$ 1,075,000	41.1%	\$ 1,539,200
2008-09	2,708,500	1,271,500	46.9%	2,976,200
2009-10	2,435,800	762,800	31.3%	4,649,200

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$25,093,825, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$25,093,825 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$64,962,500, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 38.6 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.

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

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 OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial cost 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 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 7.3 percent initially for the 2009-10 fiscal year, reduced to an ultimate rate of 4.9 percent after 60 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over a 30-year period.

14. CONSORTIUM

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

15. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Putnam County District School Board is a member of the North East Florida Educational Consortium (NEFEC) (see Note 14) and participates in NEFEC's Risk Management Programs relating to property and casualty insurance, under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such risk management programs. NEFEC's Risk Management Programs for property and casualty insurance are a risk-sharing public entity pool that is self-sustaining through member assessments (premiums). Coverage is purchased through commercial companies for claims in excess of specified

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

amounts. Activities applicable to the NEFEC Risk Management Property/Casualty Program are included in the business-type activities on the financial statements.

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

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

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

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

16. PUBLIC ENTITY RISK POOL

Fund Description. The North East Florida Educational Consortium Risk Management Programs (NEFEC RMP) public entity risk pool was organized on July 1, 1982, to provide property and casualty insurance coverage for its member districts. NEFEC RMP was established under the authority of Sections 1001.42(12)(k), 111.072, 1001.42(11)(d), 1011.18(6), 440.38(6), and 768.28, Florida Statutes. NEFEC RMP was established to formulate, develop, and administer, on behalf of the member districts, a program of group self-insurance for achieving lower costs through the development of a comprehensive loss control program. If the assets of NEFEC RMP were to be exhausted, members would be responsible for their allocable portion of the NEFEC RMP liabilities. NEFEC RMP members currently include 12 districts. Members may withdraw from NEFEC RMP by providing a 60-day written notice of intent to withdraw and may withdraw on the next anniversary date of the program. Annual assessments and increases are based on the assessment formula developed by the member districts.

Summary of Significant Accounting Policies

- **Unpaid Claims Liabilities** – NEFEC RMP establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards. Accordingly, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage

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

such as general liability and workers' compensation. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect settlements, claim frequency, and other economic and social factors.

- **Excess Insurance** – NEFEC RMP has entered into agreements with various insurance companies to provide specific excess coverage for claim amounts above a stated amount on an individual claim basis and aggregate excess coverage when total claims minus specific excess coverage exceed the loss fund. The amount of \$625,092.33 in excess insurance recoverable on unpaid claims was deducted from the liability for unpaid claims at June 30, 2010.
- **Investment Income** – Investment income is not treated as an offset to reserves.

Unpaid Claims Liabilities

The following schedule presents the changes in claims liability for the past two years in the NEFEC RMP:

	<u>Reconciliation of Claims Liability</u>	
	<u>2009</u>	<u>2010</u>
Estimated Insurance Claims Payable, Beginning of Year	<u>\$ 11,743,000</u>	<u>\$ 9,565,000</u>
Incurring Claims and Claims Adjustment Expenses:		
Provision for Insured Events of Current Year	5,026,000	5,163,000
Increase (Decrease) in Provision for Insured Events of Prior Years	(2,798,000)	258,000
Increase (Decrease) in Estimated Incurred Claims Assigned	<u>838,682</u>	<u>(94,494)</u>
Total Incurred Claims and Claims Adjustment Expenses	<u>3,066,682</u>	<u>5,326,506</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to:		
Insured Events of the Current Year	1,554,000	1,650,000
Insured Events of Prior Years	3,200,000	3,463,000
Adjustments for Payments from Excess Insurers and Subrogation	<u>490,682</u>	<u>(208,494)</u>
Total Payments	<u>5,244,682</u>	<u>4,904,506</u>
Estimated Insurance Claims Payable, End of Year	<u><u>\$ 9,565,000</u></u>	<u><u>\$ 9,987,000</u></u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 308,826.00	\$ 308,826.00	\$ 297,455.93	\$ (11,370.07)
Federal Through State and Local State	425,000.00	425,000.00	579,151.21	154,151.21
	52,309,899.00	50,919,282.56	48,505,293.08	(2,413,989.48)
Local:				
Property Taxes	25,202,242.31	25,202,242.31	25,801,757.91	599,515.60
Miscellaneous	596,396.00	835,641.67	1,966,386.23	1,130,744.56
Total Revenues	78,842,363.31	77,690,992.54	77,150,044.36	(540,948.18)
Expenditures				
Current - Education:				
Instruction	45,919,577.01	46,971,083.41	44,489,761.11	2,481,322.30
Pupil Personnel Services	3,219,244.87	3,486,563.57	3,358,896.25	127,667.32
Instructional Media Services	2,307,762.83	2,876,672.40	2,630,066.63	246,605.77
Instruction and Curriculum Development Services	1,635,324.20	1,860,452.08	1,601,691.47	258,760.61
Instructional Staff Training Services	354,927.00	200,148.55	191,742.35	8,406.20
School Board	1,672,824.00	774,134.21	548,144.14	225,990.07
General Administration	699,782.36	990,705.07	594,265.09	396,439.98
School Administration	5,820,384.03	6,255,373.55	6,182,589.81	72,783.74
Facilities Acquisition and Construction	3,125.00	26,577.20	14,502.20	12,075.00
Fiscal Services	640,774.61	713,799.02	683,317.73	30,481.29
Food Services		19,618.78	19,618.78	
Central Services	1,013,539.42	1,035,588.90	1,020,740.03	14,848.87
Pupil Transportation Services	4,746,453.06	5,126,850.47	4,753,525.66	373,324.81
Operation of Plant	9,733,691.98	8,312,654.60	7,156,386.96	1,156,267.64
Maintenance of Plant	3,595,662.89	3,748,814.25	3,350,259.54	398,554.71
Administrative Technology Services	1,375,243.50	437,592.03	428,862.31	8,729.72
Community Services	2,500.00	2,500.00		2,500.00
Fixed Capital Outlay:				
Other Capital Outlay				
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	82,740,816.76	82,839,128.09	77,024,370.06	5,814,758.03
Excess (Deficiency) of Revenues Over Expenditures	(3,898,453.45)	(5,148,135.55)	125,674.30	5,273,809.85
Other Financing Sources (Uses)				
Transfers In	4,713,173.00	5,193,370.55	4,793,141.00	(400,229.55)
Insurance Loss Recoveries		9,190.05	10,248.80	1,058.75
Transfers Out		(1,058,783.40)	(663,074.88)	395,708.52
Total Other Financing Sources (Uses)	4,713,173.00	4,143,777.20	4,140,314.92	(3,462.28)
Net Change in Fund Balances	814,719.55	(1,004,358.35)	4,265,989.22	5,270,347.57
Fund Balances, Beginning	4,925,092.57	2,842,631.34	4,916,086.40	2,073,455.06
Fund Balances, Ending	\$ 5,739,812.12	\$ 1,838,272.99	\$ 9,182,075.62	\$ 7,343,802.63

Special Revenue - ARRA Economic Stimulus Fund				Special Revenue - Other Funds			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<u>1,478,015.54</u>	<u>9,700,761.40</u>	<u>6,962,580.96</u>	<u>(2,738,180.44)</u>	<u>8,312,758.53</u>	<u>13,242,537.20</u>	<u>10,996,331.62</u>	<u>(2,246,205.58)</u>
1,478,015.54	9,700,761.40	6,962,580.96	(2,738,180.44)	8,312,758.53	13,242,537.20	10,996,331.62	(2,246,205.58)
1,436,641.54	6,590,208.76	4,573,288.42	2,016,920.34	3,974,106.35	6,440,288.20	5,595,589.89	844,698.31
6,571.00	349,579.05	275,180.14	74,398.91	712,866.67	959,887.71	820,757.22	139,130.49
	211,841.82	200,825.01	11,016.81	83,713.42	140,359.16	131,960.25	8,398.91
	407,611.38	164,176.14	243,435.24	1,742,905.82	2,773,746.82	2,311,969.48	461,777.34
33,873.00	577,290.15	280,960.43	296,329.72	1,342,723.54	1,975,465.86	1,595,044.83	380,421.03
930.00	338,792.73	307,376.51	31,416.22	342,302.99	464,677.24	328,920.28	135,756.96
	5,464.00	5,464.00					
				22,004.65	22,004.65		22,004.65
	18,668.17	18,668.17					
	104,463.54	39,800.34	64,663.20	89,802.59	433,392.43	199,444.71	233,947.72
	289,405.29	289,405.29		99.50	4,988.14	4,917.97	70.17
	40,091.59	40,091.59			20,000.00		20,000.00
	62,326.29	62,326.29		2,233.00	7,726.99	7,726.99	
	237,008.63	237,008.63					
	450,739.72	450,739.72					
	17,270.28	17,270.28					
<u>1,478,015.54</u>	<u>9,700,761.40</u>	<u>6,962,580.96</u>	<u>2,738,180.44</u>	<u>8,312,758.53</u>	<u>13,242,537.20</u>	<u>10,996,331.62</u>	<u>2,246,205.58</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
June 30, 2008	\$ 0	\$ 27,759,000	\$ 27,759,000	0.0%	\$ 74,696,501	37.2%
July 1, 2009	0	25,093,825	25,093,825	0.0%	64,962,500	38.6%

PUTNAM COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - TEN-YEAR CLAIMS DEVELOPMENT INFORMATION -
NORTH EAST FLORIDA EDUCATIONAL CONSORTIUM RISK MANAGEMENT PROPERTY/CASUALTY PROGRAMS
For the Fiscal Year Ended June 30, 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Earned Required Contribution and Investment Revenues:										
Earned	\$ 8,411,310	\$ 8,725,260	\$ 12,760,628	\$ 14,097,997	\$ 14,550,526	\$ 13,634,123	\$ 16,964,979	\$ 17,082,175	\$ 15,303,151	\$ 15,304,938
Excess Insured	2,113,271	2,547,000	4,465,441	4,795,865	4,973,645	4,439,275	7,619,617	7,996,481	6,850,872	6,805,867
Total Net Earned Required Contribution and Investment Revenues	6,298,039	6,178,260	8,295,187	9,302,132	9,576,881	9,194,848	9,345,362	9,085,694	8,452,279	8,499,071
Unallocated Expenses	1,072,674	893,532	555,023	522,222	543,573	1,411,089	1,474,414	1,642,152	1,602,246	1,069,895
Estimated Incurred Claims and Expenses, End of Policy Year:										
Incurred	5,826,000	6,479,000	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000.00
Net Paid (Cumulative) as of:										
End of Policy Year	1,267,000	1,475,000	1,493,000	1,596,000	1,679,000	1,844,000	1,899,000	2,178,000	1,554,000	1,650,000
One Year Later	3,119,000	3,255,000	3,433,000	3,081,000	2,966,000	2,933,000	2,778,000	3,554,000	3,309,000	
Two Years Later	4,386,000	4,234,000	4,712,000	3,539,000	3,366,000	3,397,000	3,484,000	4,360,000		
Three Years Later	5,306,000	4,869,000	5,320,000	3,891,000	3,546,000	3,857,000	3,827,000			
Four Years Later	5,743,000	4,969,000	5,507,000	4,105,000	3,586,000	4,090,000				
Five Years Later	5,948,000	5,260,000	5,600,000	4,417,000	3,595,000					
Six Years Later	6,096,000	5,305,000	5,732,000	4,422,000						
Seven Years Later	6,142,000	5,336,000	5,755,000							
Eight Years Later	6,183,000	5,408,000								
Nine Years Later	6,209,000									
Reestimated Excess Insured Claims and Expenses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	5,826,000	6,479,000	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000
One Year Later	6,324,000	6,569,000	6,399,000	5,545,000	5,153,000	5,332,000	5,061,000	5,529,000	5,490,000	
Two Years Later	6,557,000	5,936,000	6,513,000	4,778,000	4,685,000	4,869,000	4,557,000	5,771,000		
Three Years Later	6,392,000	5,749,000	6,245,000	4,961,000	4,353,000	4,595,000	4,549,000			
Four Years Later	6,363,000	5,553,000	6,399,000	4,946,000	4,087,000	4,570,000				
Five Years Later	6,383,000	5,763,000	6,411,000	4,849,000	3,891,000					
Six Years Later	6,576,000	5,741,000	6,092,000	4,798,000						
Seven Years Later	6,484,000	5,622,000	5,950,000							
Eight Years Later	6,465,000	5,701,000								
Nine Years Later	6,531,000									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	705,000	(778,000)	(640,000)	(2,178,000)	(2,696,000)	(2,495,000)	(1,659,000)	(780,000)	464,000	0

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

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

1. GAAP TO BUDGET COMPARISON

Budgets are adopted on a basis consistent with generally accepted accounting principles except that generally accepted accounting principles for capital leases require the recording of a capital outlay expenditure and a corresponding financing resource in the current period; whereas, budget basis accounting requires appropriations in the current and future periods only to the extent of the annual capital lease payments.

	General Fund	
	Expenditures	Other Financing Sources (Uses)
Generally Accepted Accounting Principles	\$ 77,985,179.93	\$ 5,101,124.79
Adjustment for Capital Leases	(960,809.87)	(960,809.87)
Budget Basis	<u>\$ 77,024,370.06</u>	<u>\$ 4,140,314.92</u>

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The District obtained a revised actuarial valuation of the unfunded actuarial accrued liability for its Other Post Employment Benefits Program as of July 1, 2009, as a result of certain changes that caused the unfunded actuarial accrued liability to decrease from \$27,759,000 to \$25,093,825. These changes include:

- Lower than expected increase in premiums
- Demographic changes in the covered population
- Changes in the assumed rates of retirement

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

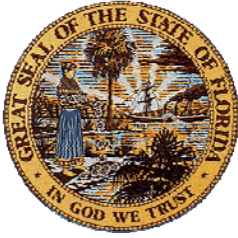
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 1,334,522.02	\$
National School Lunch Program	10.555	300	3,445,387.37	
Summer Food Service Program for Children	10.559	323, 325	119,764.48	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	388,755.54	
Total Child Nutrition Cluster			5,288,429.41	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371, 592	189,070.00	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	47,571.91	
Total United States Department of Agriculture			5,525,071.32	
United States Department of Labor:				
Indirect:				
Florida Crown Workforce Development Board:				
National Farmworker Jobs Program	17.264	405	54,314.00	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	403,215.65	199,270.03
Fund for the Improvement of Education	84.215	N/A	127,366.86	
Early Reading First	84.359	N/A	1,065,289.43	163,738.77
Total Direct			1,595,871.94	363,008.80
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	5,181,005.35	387,920.00
Special Education - Preschool Grants	84.173	266, 267	186,179.67	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	1,692,432.06	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	34,779.85	
Total Special Education Cluster			7,094,396.93	387,920.00
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	4,714,860.38	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	1,183,863.44	
Total Title I, Part A Cluster			5,898,723.82	
Education for Homeless Children and Youth Cluster:				
Education for Homeless Children and Youth	84.196	127	58,718.50	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	29,505.29	
Total Education for Homeless Children and Youth Cluster			88,223.79	
Educational Technology State Grants Cluster:				
Education Technology State Grants	84.318	121, 122	60,236.70	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	82,461.36	
Total Educational Technology State Grants Cluster			142,698.06	
State Fiscal Stabilization Fund Cluster:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	3,484,530.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	1,249,616.45	18,051.00
Total State Stabilization Fund Cluster			4,734,146.45	18,051.00

PUTNAM 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 Education (Continued):				
Indirect (Continued):				
Adult Education - Basic Grants to States	84.002	191, 193	\$ 139,713.12	\$
Migrant Education - State Grant Program	84.011	217	283,948.52	
Career and Technical Education - Basic Grants to States	84.048	161	245,489.01	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	69,052.51	
Twenty-First Century Community Learning Centers	84.287	244	1,463,596.22	
Reading First State Grants	84.357	211	269,612.11	25,000.00
Rural Education	84.358	110	277,121.34	
English Language Acquisition Grants	84.365	102	80,638.23	
Improving Teacher Quality State Grants	84.367	224	903,556.46	
University of South Florida: Mathematics and Science Partnerships	84.366	None	221,514.95	
Total Indirect			<u>21,912,431.52</u>	<u>430,971.00</u>
Total United States Department of Education			<u>23,508,303.46</u>	<u>793,979.80</u>
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	232	<u>11,311.24</u>	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	<u>170,089.07</u>	
Total Expenditures of Federal Awards			<u>\$ 29,269,089.09</u>	<u>\$ 793,979.80</u>

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

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



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam County District School Board as of and for the fiscal year ended June 30, 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 Putnam County District School Board's financial statements. For the school internal funds and 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.

Internal Control Over Financial Reporting

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

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

control over financial reporting that we consider to be a material weakness and 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 deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 2 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.

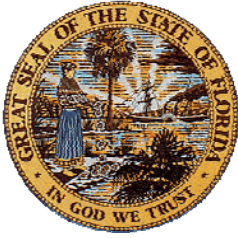
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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 21, 2011



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

Compliance

We have audited the Putnam 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.

In our opinion, 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 an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

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.

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 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.

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

Management's response to the 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 21, 2011

**PUTNAM 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? No

Significant deficiency(ies) identified that
are not considered to be a material weakness(es)? None reported

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs

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

Identification of major programs:

Child Nutrition Discretionary Grants
(CFDA No. 10.579-ARRA); 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);
Twenty-First Century Community
Learning Centers (CFDA No. 84.287);
and State Fiscal Stabilization Fund Cluster
(CFDA Nos. 84.394 - ARRA and
84.397-ARRA)

Dollar threshold used to distinguish between
Type A and Type B programs: \$878,072

Auditee qualified as low-risk auditee? Yes

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

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education (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 public resources it receives and uses is by the information included in its annual financial report. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the School Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition.

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, disclosed that improvements could be made in the District's financial reporting procedures. For example:

Government-wide Financial Statements

GAAP require that the statement of net assets present the net assets balance as the net effect of assets minus liabilities. However, District personnel responsible for preparing the financial statements did not fully understand or document the conversion entries necessary to prepare this statement, and the District reported approximately \$12.6 million more in net assets than the excess of assets over liabilities for government-wide, governmental activities. Examples of misstatements contributing to this difference are as follows:

- The District mistakenly reported approximately \$5.9 million as general revenue transfers, although interfund governmental transfers must be eliminated from presentation on the government-wide financial statements.
- Depreciation expenses, totaling approximately \$5.9 million, were mistakenly omitted from expenses, and capital asset additions, totaling \$3.7 million, were mistakenly included in facilities acquisition and construction expenses, although the cost of capital assets should be capitalized and expensed through depreciation over the useful lives of assets. Additionally, nondepreciable capital assets were overstated by approximately \$700,000 and depreciable capital assets were understated by approximately \$8.5 million.
- The District did not report other postemployment benefits (OPEB) payable totaling approximately \$4.1 million, and did not expense current year increases of approximately \$1.8 and \$1.1 million, in compensated absences payable and OPEB payable, respectively.

As a result of the misstatements discussed above and other reporting errors, the unrestricted net asset balance was overstated by approximately \$22 million, requiring corrections to revise the initial balance from approximately \$16 million to a deficit of \$6 million. Misreporting unrestricted net assets may cause financial statement users to incorrectly assess the District's financial position.

Governmental Fund Statements

- The General Fund's unreserved ending fund balance, a key indicator of the District's financial condition, was overstated by approximately \$1.3 million mainly because the District did not establish reserves for State required carryover programs and local capital improvement tax proceeds transferred from the Capital Projects – Local Capital Improvement Fund. Since the General Fund's unreserved fund balance can be used with the most flexibility for emergencies and unforeseen situations, misreporting this balance may have a detrimental effect on the decisions of financial statements users.
- The District did not record food service revenues for October 2009 through June 2010, resulting in understated cash and cash equivalents and charges for services by \$696,401.90 each in the other governmental funds, potentially causing financial statement users to misunderstand the food service program activities. This omission occurred, in part, because District personnel did not timely reconcile the school food service bank accounts as noted in Financial Statement Finding No. 2.
- The District did not use interfund receivable and payable accounts to track temporary borrowings between funds, resulting in the General Fund and the Special Revenue - ARRA Economic Stimulus Fund reporting negative cash and cash equivalents of \$616,539.95 and \$566,945.58, respectively, and the Special Revenue – Other Fund reporting negative investments of \$3,671,693.94. Without properly reporting fund ownership of its respective assets, the financial position of the funds may be misunderstood.

Proprietary Fund Statements

- Contrary to FDOE financial reporting requirements, the District did not separately report, as a major propriety fund, the Northeast Florida Education Consortium (NEFEC) American Recovery and Reinvestment Act (ARRA) Economic Stimulus Fund, with revenues and expenses of \$983,677.49 each. Separately reporting major funds allows financial statement users to readily identify the Consortium's most significant funds and their related balances and transactions.
- Each district participating in the NEFEC Employee Benefits Program is responsible for reporting their respective program activities on their financial statements, and the District, as fiscal agent for NEFEC, would not report these activities. However, as fiscal agent, the District misreported revenues and expenses, totaling approximately \$3.1 million each, for the program in its proprietary funds, thus miscommunicating these activities to financial statement users.
- The District did not report other postemployment benefits (OPEB) payable and related expenses totaling \$555,181.90 each for the NEFEC Other Programs Fund. Without properly reporting proprietary fund OPEB activities, ending net assets are misstated and financial statement users may be misinformed about the program'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, we noted that the District omitted certain RSI from the annual financial report. For example, the District did not prepare the required Ten-Year Claims Development Information for the NEFEC Risk Management (Property/Casualty) Program, and omitted explanations and amounts of significant changes for major special revenue funds from the District's Management Discussion and Analysis.

The above reporting errors occurred mainly because the District had a new staff member who was inexperienced in preparing the financial statements and review procedures were not effective to detect and correct reporting errors. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's financial statements were materially correct and RSI included the required elements, and District personnel accepted these

adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances, transactions, and required supplementary information are properly reported.

SIGNIFICANT DEFICIENCY

Finding No. 2: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

The District maintained 14 separate bank accounts that were reconciled to the general ledger by an accountant in the Division of Fiscal Services Office. By initialing and dating the reconciliations, the accountant evidenced completion of the procedures and the chief financial officer evidenced review and approval of the reconciliations; however, the bank account reconciliations were not performed timely. Specifically, we noted that the December 2009 through June 2010 bank account reconciliations were performed for 6 bank accounts in September 2010, for 2 bank accounts in October 2010, and for 4 bank accounts, including the school food service fund account, in December 2010. As of December 31, 2010, the reconciliations for the remaining 2 bank accounts, the payroll and vendor payable clearing accounts, had not been started. District personnel indicated that the delays in preparing bank reconciliations were mainly because the personnel were unfamiliar with the new financial accounting system.

As discussed in Financial Statement Finding No. 1, the untimely bank account reconciliations resulted in inaccurate cash balances reported at June 30, 2010. For example, reconciliations for the school food service accounts include a comparison of cash collections and corresponding deposits to determine the accounting entries to record food service charges for services revenue. However, because of the untimely reconciliations, the District did not prepare these accounting entries or properly report food service cash and related revenues for the 2009-10 fiscal year. In addition, without accurate accounting records, the monthly financial reports provided to the Board were inaccurate, increasing the risk of decisions by the Board based on incorrect financial information. Failure to provide for timely bank reconciliations increases the risk that errors or fraud could occur and not be promptly detected.

Recommendation: The District should enhance procedures to ensure timely reconciliation of bank accounts to the general ledger and prompt investigation and resolution of any unreconciled differences.

ADDITIONAL MATTERS

Finding No. 3: 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 these employees were evaluated based primarily on student performance. Instructional personnel typically maintained records, in consultation with their school principal or administrator, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they met periodically with their school principal or administrator throughout the school year to assess the progress in meeting the projected goals. Similarly, school administrators met with their immediate supervisors to assess their progress. Although student performance was a consideration in completion of each instructional and school administrator's performance appraisal forms, District records did not evidence a correlation between student performance and the employee's performance assessment, such as providing a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

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 or shortcomings.

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

Finding No. 4: Compensation and Salary Schedules

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

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the

basis for determining differential 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 applicable union contracts for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes, the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance.

The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the regular workday, such as supplements for coaches and grade and club sponsors. Also, the District provided a one-time payment for personnel to relocate to schools identified as extremely difficult due to school demographics, supplements for level of job performance difficulties for challenging assignments not normally associated with the employee's job description, and supplements for critical shortage areas identified by the District. While the District made supplemental salary payments to instructional personnel for additional responsibilities, no differentiated pay was provided to employees during the 2009-2010 fiscal year for school demographics, level of job performance difficulties, or critical shortage areas. In the absence of providing differential pay, the usefulness and relevance of the established differentiated pay factors for school demographics, level of job performance difficulties, and critical shortage areas were not readily apparent.

- **School-based Administrators.** The salary schedule for school-based administrators indicated that the Superintendent would assign the pay of each administrator within a specified range, and additional supplements depending upon the administrator's evaluation and additional responsibilities. However, the salary schedule did not evidence consideration of differentiated pay based on school demographics, level of job performance difficulties, or critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and that the various differentiated pay factors were consistently considered and applied.

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

Finding No. 5: 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 is a member, and serves as fiscal agent, of the North East Florida Educational Consortium (NEFEC) and participates in NEFEC's Risk Management Program relating to property and casualty insurance. Several districts

established the program, self-sustained through member assessments (premiums), as 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 NEFEC. NEFEC assessed participating districts their applicable premiums without identifying the portions of the premium that were applicable to the specific coverage areas, and the District paid premiums to participate in the program totaling approximately \$2.1 million during the 2009-10 fiscal year, including approximately \$1.1 million from the LCI Fund. However, the premium costs included some purposes other than insurance for educational and ancillary plants, such as excess workers' compensation, school board liability, claims processing costs for a third party administrator, and various administrative costs. In addition, District personnel did not, of record, determine that the premium amount funded by the LCI Fund related solely to property and casualty insurance to insure the District's educational and ancillary plants. Consequently, District records did not evidence that the use of the capital outlay tax levy proceeds for insurance premiums was consistent with Section 1011.71(5), Florida Statutes. Accordingly, these expenditures of capital outlay tax levy proceeds, totaling approximately \$1.1 million, represent questioned costs.

Without adequate controls to ensure that capital outlay tax levy proceeds are expended 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 using the \$1.1 million of capital outlay tax levy proceeds for premiums paid to participate in the NEFEC Risk Management Program or restore this amount to the LCI Fund.

Finding No. 6: Information Technology – Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. As similarly noted in our report No. 2010-152, the District lacked written policies and procedures that governed the following:

- Administering vendor-supplied identification codes, guest accounts, administrative passwords, and security devices (such as routers and firewalls).
- Defining network administration responsibilities.
- Monitoring workstations that allow administrative rights for end users.
- Defining what is considered to be sensitive or confidential information and the storage, handling, transmission, use, and format of such information or data.
- Reporting suspected, and responding to actual, security incidents.
- Routine monitoring and review of the business application security logs.

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. 7: Information Technology – Management of Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job functions.

The District is the fiscal agent for the North East Florida Educational Consortium (NEFEC), which provides various programs and services to member districts and institutions. IT services are provided to participating members by the NEFEC Regional Information Center (NRIC). Additionally, participating members may have their own IT staff.

We reviewed selected access privileges of District IT and NRIC staff for the financial application to determine the appropriateness of access privileges. Our review disclosed that four District IT employees and eight NRIC data center employees had systemwide access privileges to the District's financial application that allowed them to perform end-user functions, contrary to an appropriate separation of duties. We noted that the District had compensating controls in place (e.g., separation of the duties on initiating and approving purchases, adding and updating vendors, payroll updating and processing, and department supervisor monitoring of budget and actual expenditures) to help mitigate the effect of these deficiencies. However, the access privileges either permitted the employees to perform incompatible duties or the access privileges were not necessary for their job functions, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should review the appropriateness of District and NRIC employees' access privileges to the financial application and restrict access privileges to enforce an appropriate separation of IT and end-user duties.

Finding No. 8: Information Technology – Disaster Recovery Plan

Disaster recovery planning is an element of IT controls established to manage the availability of valuable data and computer resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the organization a plan for continuing critical IT-dependent operations.

Our audit disclosed that the NRIC needed to improve disaster recovery planning. We are not disclosing specific details of this issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issue. Without adequate disaster recovery planning, the District's and NRIC data center's ability to efficiently and effectively continue operations with minimal loss and processing disruption may be limited in the event of an actual disaster.

Recommendation: The NRIC data center should improve disaster recovery planning to provide increased assurance of a timely and orderly resumption of IT-dependent operations in the event of a disaster.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1**Federal Agencies:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Programs:** ARRA - State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397); Child Nutrition Discretionary Grants (CFDA No. 10.579 - ARRA); 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 Twenty-First Century Community Learning Centers (CFDA No. 84.287)**Finding Type:** Noncompliance**Questioned Costs:** Unknown

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

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

As noted in our report No. 2010-152, the District transferred the net assets of the internal service fund, totaling approximately \$2.5 million, to the General Fund and did not make a determination of the portion that should be credited to Federal programs. During the 2009-10 fiscal year, the District used \$700,000 of the \$2.5 million to pay employee benefit health insurance premiums and, as of June 30, 2010, the District held the remaining \$1.8 million in an insurance reserve within the General Fund. However, District personnel had not made a determination of the portion attributable to Federal programs for premium costs previously charged to Federal programs. Without such determination, District records do not evidence that applicable refunds were made to the Federal Government for its share of the funds transferred as required by OMB *Circular A-87*.

Recommendation: **The District should make a determination as to what portion of the transferred funds should be credited to Federal programs and consult with the Florida Department of Education as to the resolution of this matter.**

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. 2010-152.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING – FEDERAL AWARDS

*PUTNAM 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
2010-152 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010), Education Technology State Grants (CFDA No. 84.318), and Improving Teacher Quality State Grants (CFDA No. 84.367) / Allowable Costs/Cost Principles - Transfer of Insurance Program Assets	The District did not make a determination of the portion of a net \$2.5 million transfer of medical insurance refunds, from an internal service fund to the General Fund, that should have been credited to Federal programs.	Partially corrected.	The funds are all sitting in a committed reserve fund balance for group insurance purposes. They are not being used by the general fund. The general fund paid back the insurance fund for all instances of the money that was borrowed (per the insurance committee's request) on June 30, 2010. All money is still accounted for separately as an insurance reserve. Information was sent to Martha Asbury at DOE and they did not ask that we take any further measures.
2010-152 (2)	Improving Teacher Quality State Grants (CFDA No. 84.367) / Period of Availability; Activities Allowed or Unallowed	The District charged expenditures of \$18,108 to the Improving Teacher Quality program for obligations not incurred within the grant period, resulting in questioned costs.	Corrected.	The District restored these moneys to the ITQ program.
2010-152 (3)	Improving Teacher Quality State Grants (CFDA No. 84.367) / Procurement - Contract Provisions	The District needed to establish procedures to ensure that contracts involving Federal funds contain certain provisions required by Federal regulations.	Corrected.	The District now includes all contractual proviso language on all purchase orders.

EXHIBIT A
MANAGEMENT'S RESPONSE



March 10, 2011

Mr. David W. Martin, CPA
Auditor General
Room 476A, Claude Pepper Building
ATTN: Joe Williams, Section 241
111 W. Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Attached is our response to the preliminary and tentative audit findings and recommendations of the Putnam County School District for the fiscal year ending June 30, 2010.

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

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

Sincerely,

Tom Townsend
Superintendent

Nikki Cummings
District I

Terry Wright
District II

Lisa Parsons
District III

C. L. Overturf, Jr.
District IV

Kathy Jorgensen
District V



Thomas D. Townsend
Superintendent of Schools

TDT:alw

Attachments

xc: Board Members
file

200 South 7th Street * Palatka, FL 32177
www.putnamschools.org

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 1: Financial Reporting

The District installed a new accounting software system on January 1, 2010. Ultimately this software system will enhance our reporting procedures to ensure that our financial statement account balances, transactions, and required supplementary information are properly reported. With our financial transactions for fiscal year 2009-2010 being split between two systems and the learning curve that was evident with the new system as well as the new accounting staff, the issuance of the annual financial report was greatly delayed and the time for the review process was non-existent. In the future, the accounting department will have additional experience with the new system along with ongoing training from NEFEC and Skyward. With the system now being fully implemented within one software system, this will facilitate additional time to spend reviewing the financial statements before they are submitted to the School Board and to FDOE.

Finding No. 2: Bank Account Reconciliations

The District installed a new accounting software system on January 1, 2010. We were informed that we would not be able to reconcile accounts separately but would have to combine all cash accounts into one account before reconciliation. As a compensating control, an accountant signed onto the online bank system on a daily basis to view the transactions in each of our 14 accounts to verify that nothing untoward was occurring. The staff has found a work around solution and all accounts, with the exception of one, are reconciled to date. The payroll account is not yet caught up, but we are working with NEFEC and Skyward to find a workable solution. The account continues to be monitored on a daily basis to ensure that there are no improperly recorded cash transactions or bank errors.

Finding No. 3: Performance Assessments

The District is currently engaged in establishing clearer procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance. The District will, going forward, establish and maintain documentation evidencing compliance with the procedures and processes to be established. While the district previously made efforts to adhere to Section 1012.34, Florida Statutes, in establishing performance assessment criteria of covered personnel, criteria utilized by the District did not show documentation of a metric criterion demonstrating such evidence. Pursuant to the District's "Memorandum of Understanding" with its employee union embedded in the requirements of its "Race to the Top" and "Teacher Incentive Fund" grant awards, clear criteria for performance assessments tied to student achievement will be established and implemented in the 2011-2012 school year which will result in performance awards to eligible instructional personnel and school administrators who meet that criterion. Going forward their annual evaluations will evidence a primary weighting of 50% of the total evaluation and will be based on the student performance of students assigned. All documentation, criteria, and evaluative instruments created to be utilized from the 2011-2012 school year going forward will clearly evidence compliance with the spirit and intent of statutes covering appropriate evaluation of such personnel.

Finding No. 4: Compensation and Salary Schedules

The District will establish and implement policies and procedures ensuring a portion of each instructional and school administrative employee's compensation be based upon the results of their annual performance evaluation. Through the implementation of the District's "Race to the Top" and "Teacher Incentive Fund" grant award programs, procedures for performance based compensation and accompanying salary scales for each class of employee will be created which will reflect such differentiation based upon employee performance. Actual compensation awards for employee performance will adhere to grant and statutory criteria for differentiation based upon performance from the 2011-2012 school year forward and will be evidenced in appropriate documentation readily available for auditor review.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 5: Ad Valorem Taxation

This issue is being researched further by the North East Florida Education Consortium Risk Management staff with regard to the law and its interpretation. If necessary, the funds will be restored to the LCI fund.

Finding No. 6: Information Technology – Written Policies and Procedures

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

- Administering vendor-supplied identification codes, guest accounts, administrative passwords and security devices (routers/firewalls).
- Defining network administration responsibilities.
- Monitoring workstations that allow administrative rights for the end users.
- Defining what is considered to be sensitive or confidential information and the storage, handling, transmission, use and of such information or data.
- Reporting suspected, and responding to actual, security incidents.
- Routine monitoring and review of the business application security logs.

Finding No. 7: Information Technology – Management of Access Privileges

Steps have been put in place to ensure that access privileges for terminated employees are promptly removed from the system and that access privileges are compatible with job responsibilities to the extent allowed by current personnel levels. In this review there were four District employees and eight NRIC employees that had system wide access. This was needed for support during our conversion to the new enterprise software system.

Finding No. 8: Information Technology – Disaster Recovery Plan

The District will work with the NRIC data center to improve disaster recovery planning and establish a cohesive plan to provide assurance of a timely and orderly resumption of IT-dependent operations in the event of a disaster.

Federal Awards Finding No. 1

The District does not believe any portion of the transferred funds should be credited to Federal Programs. The District has subsequently paid back the two amounts that were borrowed from the Group Insurance Fund and the entire assets of the fund are sitting in a Reserve for Group Insurance in the District's Operating Fund Balance Reserve section.

The District sent a memo to Martha Asbury of FDOE on May 26, 2010 to seek guidance on the resolution of the matter. Staff spoke to that office on two occasions after the transmittal of the letter. An official response was not forthcoming.

The District will contact FDOE to seek their guidance regarding the resolution of this matter and will ask for an official response.