

**BAKER COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2011



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	<u>District No.</u>
Earl Dwight Crews, Chair	1
Richard Dean Griffis, Vice Chair	2
Karen Ferry McCollum to 11-15-10	3
Jesse D. Davis from 11-16-10	3
James Paul Raulerson to 11-15-10	4
Charlie M. Burnett from 11-16-10	4
Patricia C. Weeks	5

Sherrie Raulerson, Superintendent

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

The audit team leader was Melinda Jones, CPA, and the audit was supervised by John P. Duffy, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

**BAKER COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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.

ADDITIONAL MATTERS

Finding No. 1: District records did not evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 2: 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 (2010), 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 (2010).

Finding No. 3: Controls over electronic funds transfers could be enhanced.

Finding No. 4: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 5: The District did not have a written information technology security incident response plan.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The WIA - Youth Activities; Title I, Part A Cluster; Special Education Cluster; State Fiscal Stabilization Fund Cluster; and the Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Baker 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. 2011-113.

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, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board, as of and for the fiscal year ended June 30, 2011, 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 23 percent of the assets and 62 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Baker County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Baker County District School Board as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows 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 Baker 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, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, 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
February 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Baker County School District's financial performance provides an overall review of the District's financial position and activities for the fiscal year ended June 30, 2011. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 39.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-11 fiscal year are as follows:

- The District's net assets increased by \$0.7 million, reaching a fiscal year-end balance of \$46.8 million, which represents a 1.5 percent increase over the 2009-10 fiscal year. This increase is due primarily to the Federal Economic Stimulus funding and the District carefully monitoring expenses.
- During the current fiscal year, the District's General Fund revenues totaled \$35.3 million, representing a decrease of \$0.3 million under the 2009-10 fiscal year. Expenditures totaled \$34 million for the 2010-11 fiscal year, representing an increase of 0.8 percent over the 2009-10 fiscal year.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Baker County School District (District) as a financial whole, or as an entire operating governmental entity.

The statement of net assets and statement of activities provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in a single column. For the District, the General Fund is the most significant fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Assets and Statement of Activities

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

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

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

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

The BCSB Leasing Corporation (Leasing Corporation), although also a legally separate entity was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the District.

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 entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories:

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

Proprietary Funds – Proprietary funds may be established to account for activities in which a fee is charged for services. The District uses an internal service fund to account for its employee supplemental insurance program. Since these services predominately benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

The perspective of the statement of net assets is of the District as a whole. The following is a summary of the District’s net assets as of June 30, 2011, and June 30, 2010:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	\$ 13,794,739	\$ 13,050,224
Capital Assets	46,113,476	46,679,542
Total Assets	59,908,215	59,729,766
Long-Term Liabilities	11,911,766	12,671,417
Other Liabilities	1,155,784	908,864
Total Liabilities	13,067,550	13,580,281
Net Assets:		
Invested in Capital Assets - Net of Related Debt	38,253,456	38,272,855
Restricted	3,328,953	5,100,798
Unrestricted	5,258,256	2,775,832
Total Net Assets	\$ 46,840,665	\$ 46,149,485

The largest portion of the District’s net assets (81.7 percent) reflects its investment in capital assets (e.g., land, buildings, furniture 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 net assets for fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 1,001,511	\$ 1,085,253
Operating Grants and Contributions	1,473,930	1,465,029
Capital Grants and Contributions	533,479	1,201,049
General Revenues:		
Property Taxes, Levied for Operational Purposes	5,214,992	5,390,210
Property Taxes, Levied for Capital Projects	1,245,222	1,257,125
Grants and Contributions Not Restricted to Specific Programs	34,821,338	34,430,288
Unrestricted Investment Earnings	227,658	227,982
Miscellaneous	1,151,878	474,692
Total Revenues	45,670,008	45,531,628
Functions/Program Expenses:		
Instruction	22,233,723	22,018,779
Pupil Personnel Services	2,166,755	2,222,504
Instructional Media Services	572,721	671,467
Instruction and Curriculum Development Services	1,100,118	1,109,459
Instructional Staff Training Services	414,979	422,162
Instruction Related Technology	338,973	211,263
School Board	467,261	525,191
General Administration	386,492	464,418
School Administration	1,987,737	1,990,932
Facilities Acquisition and Construction	1,847,757	1,482,178
Fiscal Services	576,194	637,663
Food Services	2,048,024	1,959,049
Central Services	940,721	396,352
Pupil Transportation Services	2,810,780	2,759,864
Operation of Plant	3,474,085	3,399,572
Maintenance of Plant	1,127,899	967,990
Administrative Technology Services	590,095	694,520
Community Services	209,865	255,891
Unallocated Interest on Long-Term Debt	189,480	210,450
Unallocated Depreciation Expense	1,495,169	1,440,395
Total Functions/Program Expenses	44,978,828	43,840,099
Increase in Net Assets	\$ 691,180	\$ 1,691,529

The largest revenue source is the State of Florida (64 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Other State revenues, primarily for acquisition, construction, and maintenance of educational facilities in the form of capital grants and contributions, decreased by \$875,360, or 10.6 percent, from the previous fiscal year. In total, State revenues decreased by \$807,183, or 2.7 percent.

Total governmental expenses for the 2010-11 fiscal year increased by approximately \$1.1 million over the previous fiscal year. Instruction expenses represent 49.4 percent of total governmental expenses for the 2010-11 fiscal year. Instruction expenses increased by \$214,994, or 1 percent, primarily due to additional teaching positions.

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

Major Governmental Funds

The General Fund. The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$8,313,733, while the total fund balance is \$9,126,282. Total fund balance increased by \$1,685,986, or 22.7 percent, during the fiscal year. Total expenditures increased by \$277,535, or 0.8 percent. The increase in fund balance is due, in part, to approximately \$1 million of General Fund expenditures being paid by the Education Jobs Fund grant during the 2010-11 fiscal year, which was a one-time infusion of funding. Additionally, the District reduced spending as most Federal stimulus funding will be discontinued in the 2011-12 fiscal year.

The Special Revenue - Federal Economic Stimulus Fund. The Federal Economic Stimulus Fund had total revenues and expenditures of \$3,271,267 each, and the expenditures were mainly for instructional salaries and benefits. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balance.

The Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$1,528,941, which is restricted for the acquisition, construction, and maintenance of capital assets. Revenues from local property taxes in this fund totaled \$1,245,223 and interest revenue was \$36,095. The District experienced decreases in both ad valorem tax revenues and interest earnings on those revenues on deposit, while the District has had an ongoing heating, ventilation, and air-conditioning replacement project at the high school. This combination of events decreased fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of fiscal year 2010-11, the District reallocated its General Fund budget through budget amendments. There were no significant variances between the original and final budgeted amounts.

Actual revenues exceeded final budget amounts by \$566,156, or 1.6 percent, while actual expenditures were \$3,980,973, or 10.5 percent, less than final budget amounts. The actual ending fund balance exceeded the estimated fund balance in the final amended budget by \$4,697,829.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of the 2010-11 fiscal year, the District had \$46,113,476 invested in capital assets, net of accumulated depreciation. The following table reflects June 30, 2011, balances compared to June 30, 2010:

	Capital Assets at June 30	
	Net of Depreciation	
	6-30-11	6-30-10
Land	\$ 1,273,920	\$ 1,273,920
Improvements Other Than Buildings	1,052,253	1,140,064
Buildings and Fixed Equipment	41,377,328	42,041,655
Furniture, Fixtures, and Equipment	120,769	82,369
Motor Vehicles	2,162,342	2,090,891
Audio Visual Materials and Computer Software	126,864	50,643
Total Net Capital Assets	\$ 46,113,476	\$ 46,679,542

Long-Term Debt

At June 30, 2011, the District had \$470,000 in outstanding bonds and \$7,390,020 of certificates of participation (COPs).

The bonds were paid from special State allocations for debt service. There are two separate bond issues, Series 2002B and Series 2005A, maturing in 2015 and 2017, respectively.

Also, outstanding at fiscal year-end were two COP issues, the Series 2005A and Series 2005-Qualified Zone Academy Bonds (QZAB), maturing in 2020 and 2021, respectively. COPs payments were made from the General Fund, and the Capital Projects - Local Capital Improvement Fund provided the resources for the 2005-QZAB sinking fund payment.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The District’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a decrease in State funding was anticipated for the 2011-12 fiscal year. In response to the lack of substantial State appropriations, the Board will rely on unassigned fund balance to maintain continued support for the education of students. Once the unassigned fund balance is used, cuts will have to be made in order for the District to remain in compliance with State statutes. If combined assigned and unassigned fund balance drops below 3 percent of revenues and transfer-ins, the District will be required to write a plan detailing how unrestricted fund balance will be increased. If unrestricted fund balance falls below 2 percent, the State would intervene on behalf of the District.

Next fiscal year, the State will not have the ARRA funds to “stabilize” the State budget. The District will use approximately \$3.5 million in unassigned fund balance to make up for the loss of ARRA funds and the additional loss in State revenues.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director for Support Services, Baker County School Board, 392 South Boulevard East, Macclenny, Florida 32063.

BASIC FINANCIAL STATEMENTS

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011**

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 12,339,866.25	\$ 61,136.00
Investments	162,489.88	
Accounts Receivable	3,549.24	
Due from Other Agencies	209,352.05	
Prepaid Items	2,940.54	
Inventories	190,751.45	
Restricted Investments	885,790.20	
Capital Assets:		
Nondepreciable Capital Assets	1,273,919.96	
Depreciable Capital Assets, Net	44,839,555.77	
TOTAL ASSETS	\$ 59,908,215.34	\$ 61,136.00
LIABILITIES		
Salaries and Benefits Payable	\$ 140,505.08	\$
Payroll Deductions and Withholdings	658,718.00	
Accounts Payable	88,617.25	
Construction Contracts Payable	155,392.09	
Construction Contracts Payable - Retainage	28,218.90	
Due to Other Agencies	40,322.23	
Estimated Insurance Claims Payable	44,010.48	
Long-Term Liabilities:		
Portion Due Within One Year	956,666.67	
Portion Due After One Year	10,955,099.31	
Total Liabilities	13,067,550.01	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	38,253,455.75	
Restricted for:		
State Required Carryover Programs	113,417.21	
Debt Service	899,105.93	
Capital Projects	1,751,316.32	
Food Service	565,114.00	
Other Purposes		17,255.00
Unrestricted	5,258,256.12	43,881.00
Total Net Assets	46,840,665.33	61,136.00
TOTAL LIABILITIES AND NET ASSETS	\$ 59,908,215.34	\$ 61,136.00

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 22,233,722.86	\$ 119,621.62	\$	\$
Pupil Personnel Services	2,166,754.66			
Instructional Media Services	572,721.20			
Instruction and Curriculum Development Services	1,100,117.70			
Instructional Staff Training Services	414,978.84			
Instruction Related Technology	338,973.41			
School Board	467,261.59			
General Administration	386,491.86			
School Administration	1,987,736.93			
Facilities Acquisition and Construction	1,847,757.15			427,903.50
Fiscal Services	576,193.69			
Food Services	2,048,023.82	663,178.86	1,473,930.25	
Central Services	940,720.74			
Pupil Transportation Services	2,810,780.05	5,494.80		
Operation of Plant	3,474,085.34			
Maintenance of Plant	1,127,898.81			
Administrative Technology Services	590,094.87			
Community Services	209,865.40	213,215.88		
Unallocated Interest on Long-Term Debt	189,479.52			105,575.07
Unallocated Depreciation Expense*	1,495,169.18			
Total Primary Government	\$ 44,978,827.62	\$ 1,001,511.16	\$ 1,473,930.25	\$ 533,478.57
Component Unit				
Baker County Education Foundation, Inc.	\$ 38,609.00	\$ 0.00	\$ 0.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Units</u>
<u>Activities</u>	
\$ (22,114,101.24)	\$
(2,166,754.66)	
(572,721.20)	
(1,100,117.70)	
(414,978.84)	
(338,973.41)	
(467,261.59)	
(386,491.86)	
(1,987,736.93)	
(1,419,853.65)	
(576,193.69)	
89,085.29	
(940,720.74)	
(2,805,285.25)	
(3,474,085.34)	
(1,127,898.81)	
(590,094.87)	
3,350.48	
(83,904.45)	
<u>(1,495,169.18)</u>	
<u>(41,969,907.64)</u>	
	<u>(38,609.00)</u>
5,214,992.02	
1,245,222.55	
34,821,337.87	48,870.00
227,658.18	429.00
<u>1,151,877.76</u>	<u>3,977.00</u>
<u>42,661,088.38</u>	<u>53,276.00</u>
691,180.74	14,667.00
<u>46,149,484.59</u>	<u>46,469.00</u>
<u>\$ 46,840,665.33</u>	<u>\$ 61,136.00</u>

**BAKER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 9,260,197.72	\$ 31,025.21	\$ 1,700,295.43	\$ 1,007,200.09	\$ 11,998,718.45
Investments	131,999.53		13,097.91	17,392.44	162,489.88
Accounts Receivable	3,549.24				3,549.24
Due from Other Funds	348,497.91	4.19			348,502.10
Due from Other Agencies	79,920.26	34,047.36		95,384.43	209,352.05
Prepaid Items	2,940.54				2,940.54
Inventories	112,013.19			78,738.26	190,751.45
Restricted Investments				885,790.20	885,790.20
TOTAL ASSETS	\$ 9,939,118.39	\$ 65,076.76	\$ 1,713,393.34	\$ 2,084,505.42	\$ 13,802,093.91
LIABILITIES AND FUND BALANCES					
Liabilities:					
Salaries and Benefits Payable	\$ 140,505.08	\$	\$	\$	\$ 140,505.08
Payroll Deductions and Withholdings	546,824.94	47,988.83		63,904.23	658,718.00
Accounts Payable	85,184.13	524.48		2,908.64	88,617.25
Construction Contracts Payable			155,392.09		155,392.09
Construction Contracts Payable - Retainage			28,218.90		28,218.90
Due to Other Funds		16,563.45	841.01	331,097.64	348,502.10
Due to Other Agencies	40,322.23				40,322.23
Total Liabilities	812,836.38	65,076.76	184,452.00	397,910.51	1,460,275.65
Fund Balances:					
Nonspendable:					
Inventory	112,013.19			78,738.26	190,751.45
Prepaid Amounts	2,940.54				2,940.54
Total Nonspendable Fund Balance	114,953.73			78,738.26	193,691.99
Restricted for:					
Food Service				486,375.74	486,375.74
State Required Carryover Programs	113,417.21				113,417.21
Debt Service				899,105.93	899,105.93
Capital Projects			1,528,941.34	222,374.98	1,751,316.32
Total Restricted Fund Balance	113,417.21		1,528,941.34	1,607,856.65	3,250,215.20
Assigned to:					
Vocational Programs	350,639.40				350,639.40
School Accounts	233,538.82				233,538.82
Total Assigned Fund Balance	584,178.22				584,178.22
Unassigned	8,313,732.85				8,313,732.85
Total Fund Balances	9,126,282.01		1,528,941.34	1,686,594.91	12,341,818.26
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,939,118.39	\$ 65,076.76	\$ 1,713,393.34	\$ 2,084,505.42	\$ 13,802,093.91

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances - Governmental Funds	\$ 12,341,818.26
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.	46,113,475.73
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	297,137.32
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
Bonds Payable	\$ 470,000.00
Certificates of Participation Payable	7,390,019.98
Other Postemployment Benefits Payable	906,100.00
Compensated Absences Payable	3,145,646.00
	(11,911,765.98)
Total Net Assets - Governmental Activities	\$ 46,840,665.33

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental:					
Federal Direct	\$ 49,032.53	\$	\$	\$	\$ 49,032.53
Federal Through State and Local State	709,809.26	3,271,266.91		3,937,452.93	7,918,529.10
	28,297,802.18			456,126.88	28,753,929.06
Local:					
Property Taxes	5,214,992.02		1,245,222.55		6,460,214.57
Impact Fees				107,256.00	107,256.00
Charges for Services - Food Service				663,178.86	663,178.86
Miscellaneous	989,895.73		36,095.48	42,941.94	1,068,933.15
Total Revenues	35,261,531.72	3,271,266.91	1,281,318.03	5,206,956.61	45,021,073.27
Expenditures					
Current - Education:					
Instruction	18,294,496.95	2,939,856.59		1,130,901.27	22,365,254.81
Pupil Personnel Services	1,701,303.02	189,427.16		288,699.76	2,179,429.94
Instructional Media Services	574,380.02			2,687.50	577,067.52
Instruction and Curriculum Development Services	699,118.13	34,904.02		371,614.21	1,105,636.36
Instructional Staff Training Services	87,491.23	595.10		327,322.88	415,409.21
Instruction Related Technology	258,754.79			82,006.26	340,761.05
School Board	468,592.31				468,592.31
General Administration	267,349.28	35,410.55		85,388.50	388,148.33
School Administration	2,003,767.16				2,003,767.16
Facilities Acquisition and Construction	123,580.71		1,542,135.22	182,041.22	1,847,757.15
Fiscal Services	580,568.23				580,568.23
Food Services	5,410.34			2,042,666.69	2,048,077.03
Central Services	492,021.27	3,507.50		20,536.02	516,064.79
Pupil Transportation Services	2,339,908.86	5,206.10	23,977.00	78,841.74	2,447,933.70
Operation of Plant	3,485,549.38				3,485,549.38
Maintenance of Plant	1,132,274.90				1,132,274.90
Administrative Technology Services	591,636.53				591,636.53
Community Services	210,694.07				210,694.07
Fixed Capital Outlay:					
Facilities Acquisition and Construction	39,870.68		6,211.05	643,639.88	689,721.61
Other Capital Outlay		62,359.89	484,137.96	68,122.25	614,620.10
Debt Service:					
Principal	466,666.67			80,000.00	546,666.67
Interest and Fiscal Charges	161,816.67			27,662.85	189,479.52
Total Expenditures	33,985,251.20	3,271,266.91	2,056,461.23	5,432,131.03	44,745,110.37
Excess (Deficiency) of Revenues Over Expenditures	1,276,280.52		(775,143.20)	(225,174.42)	275,962.90
Other Financing Sources (Uses)					
Transfers In	259,006.00			164,411.00	423,417.00
Proceeds from Sale of Capital Assets	23,465.28				23,465.28
Insurance Loss Recoveries	127,234.48				127,234.48
Transfers Out			(164,411.00)	(259,006.00)	(423,417.00)
Total Other Financing Sources (Uses)	409,705.76		(164,411.00)	(94,595.00)	150,699.76
Net Change in Fund Balances	1,685,986.28		(939,554.20)	(319,769.42)	426,662.66
Fund Balances, Beginning	7,440,295.73		2,468,495.54	2,006,364.33	11,915,155.60
Fund Balances, Ending	\$ 9,126,282.01	\$ 0.00	\$ 1,528,941.34	\$ 1,686,594.91	\$ 12,341,818.26

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

**BAKER 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, 2011**

Net Change in Fund Balances - Governmental Funds \$ 426,662.66

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation in excess of capital outlays expense in the current fiscal year. (566,066.27)

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

	\$	80,000.00	
Bonds Payable			
Certificates of Participation Payable		466,666.67	546,666.67

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 418,400.25

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. (205,416.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. 70,933.43

Change in Net Assets - Governmental Activities \$ 691,180.74

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2011**

Governmental Activities -
Internal
Service
Fund

ASSETS

Current Assets:

Cash and Cash Equivalents \$ 341,147.80

LIABILITIES

Current Liabilities:

Estimated Insurance Claims Payable \$ 44,010.48

NET ASSETS

Unrestricted 297,137.32

TOTAL LIABILITIES AND NET ASSETS \$ 341,147.80

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2011**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Premium Revenues	\$ 493,665.12
OPERATING EXPENSES	
Insurance Claims	427,301.90
Operating Income	66,363.22
NONOPERATING REVENUES	
Interest Revenue	4,570.21
Change in Net Assets	70,933.43
Total Net Assets - Beginning	226,203.89
Total Net Assets - Ending	\$ 297,137.32

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2011**

		Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Premiums	\$	493,665.12
Cash Payments for Insurance Claims		(426,403.86)
Net Cash Provided by Operating Activities		67,261.26
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		4,570.21
Net Increase in Cash and Cash Equivalents		71,831.47
Cash and Cash Equivalents, Beginning		269,316.33
Cash and Cash Equivalents, Ending	\$	341,147.80
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$	66,363.22
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Increase in Estimated Insurance Claims Payable		898.04
Net Cash Provided by Operating Activities	\$	67,261.26

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2011**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 707,455.00
Inventories	450.00
TOTAL ASSETS	\$ 707,905.00
LIABILITIES	
Accounts Payable	\$ 10,912.00
Internal Accounts Payable	696,993.00
TOTAL LIABILITIES	\$ 707,905.00

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Baker County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Baker County School District (District) is considered part of the Florida system of public education. The governing body of the District is the 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 Baker 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 the application of these criteria, the following component units are included within the District's reporting entity:

- **Blended Component Unit.** The BCSB Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements include the financial data of the District's other component unit the Baker County Education Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the District; to promote education, and to encourage research, learning, and dissemination of information for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit. The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2011. The audit report is filed in 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 District and its component unit.

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on certificates of participation.

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

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

➤ **Basis of Accounting**

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Proprietary fund is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by the GASB. 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 internal service fund are charges for employee health insurance premiums. Operating expenses include insurance claims. 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. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

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

➤ **Deposits and Investments**

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

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, 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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The District’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of United States Government instrumentality obligations and 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 average invoice price, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end physical inventories.

➤ **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 \$5,000. 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.

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

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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 restricted in the governmental fund financial statements for the 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 is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 7, 2010. 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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Baker 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.

➤ **Educational Impact Fees**

Baker County imposes an educational impact fee based on an ordinance adopted by the County Commission in 2006. The educational impact fee is collected by the County for most new residential construction. The fees are collected by the County and each municipality within the County based on an interlocal agreement. The fees shall be used solely for the purpose of providing capital improvements to the public educational system necessitated by new residential development, and shall not be used for any expenditure that would be classified as a maintenance or repair expense. The authorized uses include, but are not limited to, land acquisition, facility design and construction costs, furniture and equipment, and payment of principal, interest, and related costs of indebtedness necessitated by new residential development.

➤ **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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	\$ 197,278.26
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	149,174.15
Debt Service Accounts	6 Months	13,315.73
United States Instrumentality Obligations - FHLMC Discount Notes (2)	12-21-2011	885,790.20
Total Investments, Reporting Entity		<u>\$ 1,245,558.34</u>

Notes: (1) Investment reported as a cash equivalent for financial statement reporting purposes.

(2) This investment is held under a paying agent agreement in connection with the Qualified Zone Academy Bonds financing arrangement (see Note 5).

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. 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 had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (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 District does not have a formal investment policy that limits its investment choices.

**BAKER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

- 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.
- The District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in United States instrumentality obligations is authorized under a forward delivery agreement with the Qualified Zone Academy Bond paying agent. The investments must have a maturity date on or before December 21, 2021. The District's investment in Federal Home Loan Mortgage Corporation Discount Notes was rated A-1+ by Standard & Poor's and P-1 by Moody's Investors Service.

Custodial Credit Risk

- Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.
- United States Government instrumentality obligations are held by the trustee in the name of the District.

Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in Federal Home Loan Mortgage Corporation Notes, a government sponsored enterprise of the United States Federal government. These investments are 71 percent of the District's total investments and 98 percent of the investments in the aggregate remaining fund information. This investment is made pursuant to a forward delivery agreement related to the District's Qualified Zone Academy Bonds (See Note 5).

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,273,919.96	\$	\$	\$ 1,273,919.96
Total Capital Assets Not Being Depreciated	1,273,919.96			1,273,919.96
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,467,187.81	6,211.05		3,473,398.86
Buildings and Fixed Equipment	62,756,077.02	643,639.88		63,399,716.90
Furniture, Fixtures, and Equipment	1,089,169.45	92,886.78	44,406.90	1,137,649.33
Motor Vehicles	4,834,409.01	446,690.00		5,281,099.01
Audio Visual Materials and Computer Software	461,814.60	114,914.00	7,520.00	569,208.60
Total Capital Assets Being Depreciated	72,608,657.89	1,304,341.71	51,926.90	73,861,072.70
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,327,123.56	94,022.84		2,421,146.40
Buildings and Fixed Equipment	20,714,421.68	1,307,967.00		22,022,388.68
Furniture, Fixtures, and Equipment	1,006,800.40	54,486.46	44,406.90	1,016,879.96
Motor Vehicles	2,743,518.21	375,238.80		3,118,757.01
Audio Visual Materials and Computer Software	411,172.00	38,692.88	7,520.00	442,344.88
Total Accumulated Depreciation	27,203,035.85	1,870,407.98	51,926.90	29,021,516.93
Total Capital Assets Being Depreciated, Net	45,405,622.04	(566,066.27)		44,839,555.77
Governmental Activities Capital Assets, Net	\$ 46,679,542.00	\$ (566,066.27)	\$ 0.00	\$ 46,113,475.73

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 375,238.80
Unallocated	1,495,169.18
Total Depreciation Expense - Governmental Activities	\$ 1,870,407.98

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

5. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2011, are as follows:

<u>Series</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
Series 2005A	\$ 7,000,000.00	\$ 4,199,999.98	3.65	2020
Series 2005-QZAB	3,190,020.00	3,190,020.00	(1)	2021
Total Certificates of Participation	<u>\$ 10,190,020.00</u>	<u>\$ 7,390,019.98</u>		

Note (1): Interest on this debt is "paid" by the United States Government through the issuance of Federal income tax credits to the holder of the QZABs. The rate of return to the holders was established by the United States Government at the time of the sale.

The District entered into a financing arrangement on March 1, 2005, which was characterized as a lease-purchase agreement, with the BCSB Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, improvements, and equipment.

The financing was accomplished through the issuance of certificates of participation by the Leasing Corporation to third-party investors to be repaid from the proceeds of rents paid by the District.

Series 2005A Certificates. The District secured financing of a prekindergarten through kindergarten educational facility in the total amount of \$7,000,000 through the issuance of Master Lease Program Obligations, Series 2005A. As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation, with a rental fee of \$10 per year. The initial term of the lease is 20 years commencing on March 1, 2005. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates.

The District properties included in the Series 2005A ground lease under this arrangement include portions of land underlying the Pre-K/Kindergarten Center building and related property together with premises rights on the servient property.

Series 2005-QZAB Certificates. The Series 2005-Qualified Zone Academy Bonds (QZAB) certificates were issued under a special program whereby the certificates, bearing an original issue date of December 21, 2005, will mature in full on December 21, 2021, for the original \$3,190,020 issue amount. There is no interest cost for borrowing moneys under this program. The financing proceeds were used for facilities upgrades, safety improvements, transportation equipment, and technology improvements at several designated schools, which were leased by the District from the Leasing Corporation. The schools designated for the improvements and equipment include Baker County Middle, Westside Elementary, Keller Intermediate, and Macclenny Elementary Schools. The District entered into a forward delivery agreement

**BAKER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

under which mandatory deposits (rent payments) of \$164,411 are required for 16 consecutive years beginning December 21, 2006. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with the accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the certificates mature. The Series 2005-QZAB issue is secured by the assets held under the trust agreement in the event of cancellation or default.

Minimum Lease Payments. With the exception of the Series 2005-QZAB issues as discussed above, the lease payments are payable by the District semiannually, on July 15 and January 15 at an interest rate of 3.65 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 619,966.67	\$ 466,666.67	\$ 153,300.00
2013	602,933.33	466,666.67	136,266.66
2014	585,900.01	466,666.67	119,233.34
2015	568,866.67	466,666.67	102,200.00
2016	551,833.33	466,666.67	85,166.66
2017-2020	<u>2,037,000.02</u>	<u>1,866,666.63</u>	<u>170,333.39</u>
Total Minimum Lease Payments	<u>\$ 4,966,500.03</u>	<u>\$ 4,199,999.98</u>	<u>\$ 766,500.05</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2002B	\$ 110,000	4.000 - 5.375	2015
Series 2005A	<u>360,000</u>	5.0	2017
Total Bonds Payable	<u>\$ 470,000</u>		

These bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

State School Bonds

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	\$ 113,500.00	\$ 90,000.00	\$ 23,500.00
2013	109,300.00	90,000.00	19,300.00
2014	114,687.50	100,000.00	14,687.50
2015	104,575.00	95,000.00	9,575.00
2016	84,750.00	80,000.00	4,750.00
2017	15,750.00	15,000.00	750.00
Total	<u>\$ 542,562.50</u>	<u>\$ 470,000.00</u>	<u>\$ 72,562.50</u>

On June 20, 2011, the Board approved a resolution for the State Board of Education to issue \$530,000 in capital outlay bonds for and on behalf of the Board in order to finance the cost of HVAC system improvements and other repairs to the Baker County High School. As of February 27, 2012, these bonds have not been issued.

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	\$ 550,000.00	\$	\$ 80,000.00	\$ 470,000.00	\$ 90,000.00
Certificates of Participation Payable	7,856,686.65		466,666.67	7,390,019.98	466,666.67
Compensated Absences Payable	3,564,046.25	472,738.78	891,139.03	3,145,646.00	400,000.00
Other Postemployment Benefits Payable	700,684.00	572,216.00	366,800.00	906,100.00	
Total Governmental Activities	<u>\$ 12,671,416.90</u>	<u>\$ 1,044,954.78</u>	<u>\$ 1,804,605.70</u>	<u>\$ 11,911,765.98</u>	<u>\$ 956,666.67</u>

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

**BAKER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 348,497.91	\$
Special Revenue:		
Federal Economic Stimulus	4.19	16,563.45
Capital Projects:		
Local Capital Improvement		841.01
Nonmajor Governmental		331,097.64
Total	\$ 348,502.10	\$ 348,502.10

The interfund amounts primarily represent loans to cover temporary cash deficits in pooled accounts and expenditures incurred prior to reimbursements from outside parties. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 259,006.00	\$
Capital Outlay:		
Local Capital Improvement		164,411.00
Nonmajor Governmental	164,411.00	259,006.00
Total	\$ 423,417.00	\$ 423,417.00

These transfers were to move restricted Public Education Capital Outlay revenues to offset eligible maintenance expenditures in the General Fund, and to transfer funds to cover debt service requirements.

9. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

**BAKER COUNTY
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The District reports its governmental fund balances in the following categories, as applicable:

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories and prepaid items as nonspendable.

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any amounts classified as committed at June 30, 2011.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent, and not included in other categories.

➤ **Unassigned**

The portion of fund balance that is residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue sources for the 2010-11 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 21,414,789.00
Categorical Educational Program - Class Size Reduction	5,409,740.00
Gross Receipts Tax (Public Education Capital Outlay)	259,006.00
Workforce Development Program	182,963.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	167,201.30
School Recognition	80,687.00
Food Service Supplement	31,998.00
Discretionary Lottery Funds	17,980.00
Mobile Home License Tax	10,393.54
Miscellaneous	<u>1,179,171.22</u>
Total	<u>\$ 28,753,929.06</u>

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.284	\$ 4,517,749.99
Basic Discretionary Local Effort	0.748	639,530.09
Critical Operating Needs	0.250	213,746.69
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>1,282,480.13</u>
 Total	<u><u>7.782</u></u>	<u><u>\$ 6,653,506.90</u></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

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programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
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 0.03 percent for administrative costs of PEORP.

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

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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, 2009, June 30, 2010, and June 30, 2011, totaled \$2,152,915.91, \$2,052,309.35, and \$2,435,959.33, respectively, which were equal to the required contributions for each fiscal year. There were 55 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$211,129.86.

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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

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, dental, 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 approval on July 16, 2007. Under this incentive, retirees receive contributions based on their years of service ranging from \$169.81 per month for 10 to 19 years of service, to \$212.56 per month for 30 years or more of service. 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. Plan contribution requirements of the District and Plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 46 retirees received other postemployment benefits. The District provided required contributions of \$366,800 toward the annual OPEB cost, net of retiree contributions totaling \$330,700, which represents 1.6 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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:

Description	Amount
Normal Cost (service cost for one year)	\$ 281,600
Amortization of Unfunded Actuarial Accrued Liability	275,416
Interest on Normal Cost and Amortization	11,000
Annual Required Contribution	568,016
Interest on Net OPEB Obligation	28,000
Adjustment to Annual Required Contribution	(23,800)
Annual OPEB Cost (Expense)	572,216
Contribution Toward the OPEB Cost	(366,800)
Increase in Net OPEB Obligation	205,416
Net OPEB Obligation, Beginning of Year	700,684
Net OPEB Obligation, End of Year	\$ 906,100

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, 2011, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 716,107	52.5%	\$ 340,092
2009-10	736,607	51.0%	700,684
2010-11	572,216	64.1%	906,100

Funded Status and Funding Progress. As of July 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$8,261,100, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,261,100 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$20,782,900, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.7 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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

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

The District's OPEB actuarial valuation as of July 1, 2010, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2011, and estimate the District's 2010-11 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 annual healthcare average costs and premiums are assumed to increase at a rate of 10 percent initially for the 2010-11 fiscal year, increased by 1 percent per year for 2 years, then decreased by 0.5 percent per year to an ultimate rate of 5 percent after 16 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

14. RISK MANAGEMENT PROGRAMS

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

The Board contracted with a commercial insurance company to provide employee group health insurance. In addition, the Board established self-insurance plans to provide District employees with supplemental dental, hospital indemnity, disability, and vision coverage. The dental and hospital indemnity plans are for District employees and retirees, and their dependents, and the disability and vision plans are for District employees. The plans are administered through an internal service fund. Under the dental, hospital indemnity, and vision plans, the Board contributes employee premiums as a fringe benefit. The Board also contributes specified amounts for qualifying retirees to the hospital indemnity plan. Employee dependent coverage and other coverage for retirees and their dependents are by prepaid premium.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The claims liability of \$44,010.48 is reported in the Internal Service Fund at June 30, 2011, to cover estimated incurred, but not reported, insurance claims payable of the employee supplemental insurance plans. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

	<u>Fiscal-Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Payments</u>	<u>Fiscal Year-End</u>
2009-10	\$ 39,782.30	\$ 434,222.14	\$ (430,892.00)	\$ 43,112.44
2010-11	43,112.44	427,301.90	(426,403.86)	44,010.48

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

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,330,745.17	\$ 3,345,349.42	\$ 3,271,266.91	\$ (74,082.51)
<u>2,330,745.17</u>	<u>3,345,349.42</u>	<u>3,271,266.91</u>	<u>(74,082.51)</u>
1,850,262.22	2,977,911.13	2,939,856.59	38,054.54
344,169.32	189,752.45	189,427.16	325.29
63,123.37	36,808.74	34,904.02	1,904.72
11,847.00	2,292.10	595.10	1,697.00
45,697.93	45,245.38	35,410.55	9,834.83
11,109.25	22,218.50		22,218.50
3,226.08	3,555.13	3,507.50	47.63
1,310.00	5,206.10	5,206.10	
	62,359.89	62,359.89	
<u>2,330,745.17</u>	<u>3,345,349.42</u>	<u>3,271,266.91</u>	<u>74,082.51</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
June 30, 2009	\$ 0	\$ 8,315,656	\$ 8,315,656	0.0%	\$ 22,999,314	36.2%
July 1, 2010	0	8,261,100	8,261,100	0.0%	20,782,900	39.7%

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

1. BUDGETARY BASIS OF ACCOUNTING

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**BAKER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2011**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 45,000.00	\$ 45,000.00	\$ 49,032.53	\$ 4,032.53
Federal Through State and Local	350,000.00	350,000.00	709,809.26	359,809.26
State	28,529,349.00	28,529,349.00	28,297,802.18	(231,546.82)
Local:				
Property Taxes	5,371,027.00	5,371,027.00	5,214,992.02	(156,034.98)
Miscellaneous	400,000.00	400,000.00	989,895.73	589,895.73
Total Revenues	34,695,376.00	34,695,376.00	35,261,531.72	566,155.72
Expenditures				
Current - Education:				
Instruction	18,990,991.28	18,990,991.28	18,294,496.95	696,494.33
Pupil Personnel Services	2,779,466.65	2,299,466.65	1,701,303.02	598,163.63
Instructional Media Services	709,055.04	709,055.04	574,380.02	134,675.02
Instruction and Curriculum Development Services	650,816.68	900,816.68	699,118.13	201,698.55
Instructional Staff Training Services	101,096.81	151,096.81	87,491.23	63,605.58
Instruction Related Technology	276,212.42	346,212.42	258,754.79	87,457.63
School Board	616,590.28	616,590.28	468,592.31	147,997.97
General Administration	483,297.69	483,297.69	267,349.28	215,948.41
School Administration	2,086,687.15	2,086,687.15	2,003,767.16	82,919.99
Facilities Acquisition and Construction	141,500.00	141,500.00	123,580.71	17,919.29
Fiscal Services	716,985.89	716,985.89	580,568.23	136,417.66
Food Services	2,254.90	12,254.90	5,410.34	6,844.56
Central Services	538,488.47	538,488.47	492,021.27	46,467.20
Pupil Transportation Services	2,762,341.23	2,762,341.23	2,339,908.86	422,432.37
Operation of Plant	4,257,947.38	4,257,947.38	3,485,549.38	772,398.00
Maintenance of Plant	1,283,839.86	1,243,969.18	1,132,274.90	111,694.28
Administrative Technology Services	652,277.86	752,277.86	591,636.53	160,641.33
Community Services	270,858.32	270,858.32	210,694.07	60,164.25
Fixed Capital Outlay:				
Facilities Acquisition and Construction		39,870.68	39,870.68	
Other Capital Outlay				
Debt Service:				
Principal	466,666.67	466,666.67	466,666.67	
Interest and Fiscal Charges	178,850.00	178,850.00	161,816.67	17,033.33
Total Expenditures	37,966,224.58	37,966,224.58	33,985,251.20	3,980,973.38
Excess (Deficiency) of Revenues Over Expenditures	(3,270,848.58)	(3,270,848.58)	1,276,280.52	4,547,129.10
Other Financing Sources				
Transfers In	259,006.00	259,006.00	259,006.00	
Proceeds from Sale of Capital Assets			23,465.28	23,465.28
Insurance Loss Recoveries			127,234.48	127,234.48
Total Other Financing Sources	259,006.00	259,006.00	409,705.76	150,699.76
Net Change in Fund Balances	(3,011,842.58)	(3,011,842.58)	1,685,986.28	4,697,828.86
Fund Balances, Beginning	7,440,295.73	7,440,295.73	7,440,295.73	
Fund Balances, Ending	\$ 4,428,453.15	\$ 4,428,453.15	\$ 9,126,282.01	\$ 4,697,828.86

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 292,171.90
National School Lunch Program	10.555	300, 350	1,016,981.00
Summer Food Service Program for Children	10.559	323	10,857.00
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	91,970.27
Total Child Nutrition Cluster			1,411,980.17
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	77,941.04
Florida Department of Banking and Finance:			
Secure Payments for States and Counties Containing Federal Lands	10.665	None	147,577.60
Total United States Department of Agriculture			1,637,498.81
United States Department of Labor:			
Indirect:			
First Coast Workforce Development, Inc.:			
WIA Youth Activities	17.259	None	219,425.60
ARRA - WIA Youth Activities	17.259	None	18,354.33
Total United States Department of Labor			237,779.93
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	975,311.85
Special Education - Preschool Grants	84.173	266, 267	27,351.07
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	438,497.53
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	18,314.28
Total Special Education Cluster			1,459,474.73
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 228	916,600.12
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	224,710.78
Total Title I, Part A Cluster			1,141,310.90
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	13,741.97
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	5,068.72
Total Education for Homeless Children and Youth Cluster			18,810.69
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	126,305.02
ARRA - Education Technology State Grants, Recovery Act	84.386	121	595.10
Total Educational Technology State Grants Cluster			126,900.12
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,528,601.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	41,628.25
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	63,691.25
Total State Fiscal Stabilization Fund Cluster			1,633,920.50
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	53,583.78
Career and Technical Education - Basic Grants to States	84.048	151	109,972.67
Twenty-First Century Community Learning Centers	84.287	244	2,111.05
Improving Teacher Quality State Grants	84.367	224	214,820.61
Education Jobs Fund	84.410	541	1,002,742.00
Putnam County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	126.13
Total United States Department of Education			5,763,773.18
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Hazard Mitigation Grant	97.039	None	149,355.10
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	49,032.53
Total Expenditures of Federal Awards			\$ 7,837,439.55

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

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



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board as of and for the fiscal year ended June 30, 2011, 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 Baker County District School Board's financial statements. 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.

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 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.

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

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
February 27, 2012



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

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

Compliance

We have audited the Baker 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, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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, 2011.

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.

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
February 27, 2012

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
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?	No
Identification of major programs:	WIA – Youth Activities (CFDA No. 17.259 - 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); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),¹ required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures for instructional personnel and school administrators generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010). District personnel indicated that intentions were to use three years of FCAT scores, based on union-negotiated contract language, for performance assessments of instructional personnel; however, because the scores were not available during the 2010-11 fiscal year, instructional personnel and school administrator assessments did not include consideration of student performance. Without documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-113.

Recommendation: The District should document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

¹ Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

Finding No. 2: 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 (2010),² provided 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 (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide 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 to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and 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 the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators 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 (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contract did not evidence that a portion of the compensation of each instructional employee was based on performance. While these documents provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for after school activities, neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).
- **School-based Administrators.** The school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that, although the specifics had not been established to comply with the statutory performance and differentiated pay requirements, they were focused on including all required elements, criteria, and procedures in the District's pay plans and salary schedules for Board approval. However, without Board-adopted

² Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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 correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-113.

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. 3: Electronic Funds Transfer

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs. In addition, Board policy requires the Superintendent to develop the accounting and control procedures under which EFTs may be made.

Although the District does not use EFTs to make vendor payments, the District regularly makes electronic disbursements for direct deposits of employee pay and transactions between District bank accounts. The Superintendent established an EFT bank agreement containing the signatures of the Superintendent and employees authorized to make EFTs, and the District maintained documentation evidencing that EFTs were initiated by an employee who was not the employee who authorized EFTs. While the District used informal processes (oral instructions or written notes) to control and monitor EFTs, Board policy did not prescribe the accounting and control procedures for EFTs, contrary to Section 1010.11, Florida Statutes. In addition, the EFT agreement lacked the signature of the Board chair, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizers of EFTs and management review of EFT transactions, to compensate, in part, for the lack of formal policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management's responsibility to establish effective internal controls. Without properly established procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should enhance written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 4: Adult General Education Classes

Section 1004.02(3), Florida Statutes defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

For the 2010-11 fiscal year, the District reported to FDOE 20,858 adult general education contact hours for 199 students. Our tests of 1,008 hours reported for 10 students enrolled in 24 adult general education classes disclosed that the District inadvertently underreported 63 net hours, ranging from 112 hours underreported to 52 hours overreported, for 9 students enrolled in 20 classes. District personnel indicated that the District changed student records systems, increasing the manual processing of the hours reported to FDOE, which resulted in the reporting errors.

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

Recommendation: **The District should enhance its controls over the reporting of instructional contact hours for adult general education classes to FDOE.**

Finding No. 5: Information Technology – Security Incident Response

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for designated staff to be trained in incident response, and notification to affected parties.

Although the District had procedures for logging and automatic notification to the network administrator of unauthorized security events, the District had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: **The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB Circular A-133, Section 510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-113.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*BAKER COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011*

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
2011-113		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Baker County Public Schools

270 South Boulevard East
Macclenny, Florida 32063

Telephone: (904) 259-6251

www.baker.k12.fl.us

Fax: (904) 259-1387

Sherrie Raulerson
Superintendent of Schools
"Where Children Are First!"



February 8, 2012

MR DAVID W MARTIN CPA
AUDITOR GENERAL
111 W MADISON ST
TALLAHASSEE FLORIDA 32399

Dear Mr. Martin:

Thank you for your excellent audit. We are pleased once again that there were no material findings. In response to the "Additional Matters" noted for the fiscal year ending June 30, 2011, we are taking corrective action.

Item No. 1: Performance Assessments

The District is in the process of having performance assessments of instructional personnel and school administrators approved by the Florida Department of Education. Fifty percent of the performance assessments are based on student academic performance.

Item No. 2: Compensation and Salary Schedules

Thank you very much for your recommendation. We will continue to improve on compensation, comply with Florida Statutes, and work diligently with the Baker County Education Association.

Item No. 3: Electronic Funds Transfers

Administration will send information to the Board regarding the procedures used for EFTs.

Item No. 4: Adult General Education Classes

Our software provider is working on enhancements to the student collection database to ensure the proper collection and reporting of instructional hours for adult general education classes to FDOE.

Item No. 5: Information Technology – Security Response Plan

The District will develop a written security incident response plan to provide reasonable assurance that the District will respond in a timely and appropriate manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

We would like to thank your audit staff for their assistance and technical advice during the audit and for pointing out areas our district can improve upon.

If you have any questions or need further assistance, please contact me.

Sincerely,

Sherrie Raulerson
Superintendent of Schools

"Preparing individuals to be lifelong learners, self-sufficient and responsible citizens of good character"

DISTRICT SCHOOL BOARD MEMBERS

Earl Dwight Crews
District 1

Richard Dean Griffis
District 2

Jesse D. Davis
District 3

Charlie M. Burnett, III
District 4

Patricia C. Weeks
District 5

AN EQUAL ACCESS/EQUAL OPPORTUNITY INSTITUTION