

**FRANKLIN 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> |
|-------------------------------|---------------------|
| George Thompson | 1 |
| David C. Hinton | 2 |
| Teresa Ann Martin | 3 |
| Jimmy Gander, Chair | 4 |
| Carlton L. Whaley, Vice Chair | 5 |

Nina M. Marks, 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 Janice M. Slonina, CPA, and the audit was supervised by Patricia S. Crutchfield, 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.

FRANKLIN COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

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.

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Improvements were needed in the bank account reconciliation process.

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

Finding No. 4: District records did not sufficiently evidence that performance assessments of the school administrator were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 5: 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 using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 6: 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. 7: The District did not have a written security incident response plan.

Finding No. 8: The District's information technology security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Special Education Cluster; Education Technology State Grants; State Fiscal Stabilization Fund Cluster; and 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 Franklin 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. 2011-137.

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin 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 9 percent of the assets and 28 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Apalachicola Bay Charter School, 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 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 Franklin County District School Board as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Franklin 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 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 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

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

- Net assets at June 30, 2011, total \$51,745,485.61, which represents a decrease of \$1,179,652.09 (2 percent decrease) from the previous fiscal year. One of the contributing factors is the decrease in taxable property values of \$749,653,519, resulting in decrease in property tax collections of \$1,805,705.36.
- During the current fiscal year, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$734,724.48. The decrease in the current fiscal year fund balance is primarily due to decreased property values resulting in decreased property tax collections.
- The District uses Federal funding to supplement State and local funding provided by the Florida Education Finance Program (FEFP). The Florida Department of Education calculated FEFP funding, in part, based on student population.
- The Apalachicola Bay Charter School, Inc., continued to enjoy full enrollment in all grade levels K-8. It is reported as a component unit in the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements, the management's discussion and analysis, budgetary comparison schedule, schedule of funding progress for other postemployment benefits, and notes to required supplementary information are included as supplementary information.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the 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.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District's charter school meets the criteria for inclusion in the reporting entity as provided by generally accepted accounting principles. The Apalachicola Bay Charter School, Inc., is reported separately from the financial information for the primary government as a discretely presented component unit.

The Franklin School Board Leasing Corporation (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 Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base and student enrollment.

Fund Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

| | Net Assets, End of Year | |
|------------------------------|--------------------------------|-------------------------|
| | Governmental Activities | |
| | 6-30-11 | 6-30-10 |
| Current and Other Assets | \$ 8,327,128.15 | \$ 9,275,991.06 |
| Capital Assets | 58,464,057.50 | 59,587,112.88 |
| Total Assets | 66,791,185.65 | 68,863,103.94 |
| Long-Term Liabilities | 14,702,071.21 | 15,479,076.29 |
| Other Liabilities | 343,628.83 | 458,889.95 |
| Total Liabilities | 15,045,700.04 | 15,937,966.24 |
| Net Assets: | | |
| Invested in Capital Assets - | | |
| Net of Related Debt | 44,559,717.99 | 44,830,283.11 |
| Restricted | 7,358,329.46 | 7,447,877.42 |
| Unrestricted (Deficit) | (172,561.84) | 646,977.17 |
| Total Net Assets | \$ 51,745,485.61 | \$ 52,925,137.70 |

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

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets of \$625,167.86 (after exclusion of \$797,731.70 in compensated absences and other postemployment benefits) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 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 | \$ 145,185.35 | \$ 126,169.34 |
| Operating Grants and Contributions | 845,971.59 | 829,714.40 |
| Capital Grants and Contributions | 339,833.72 | 275,422.00 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 8,545,968.22 | 9,596,138.62 |
| Property Taxes, Levied for Capital Projects | 1,946,579.28 | 2,702,114.24 |
| Grants and Contributions Not Restricted to Specific Programs | 5,900,697.90 | 4,436,265.57 |
| Unrestricted Investment Earnings | 21,817.29 | 28,830.88 |
| Miscellaneous | 120,825.90 | 291,653.83 |
| Total Revenues | 17,866,879.25 | 18,286,308.88 |
| Functions/Program Expenses: | | |
| Instruction | 10,503,448.30 | 9,359,048.70 |
| Pupil Personnel Services | 391,954.80 | 467,376.05 |
| Instructional Media Services | 152,247.16 | 152,148.20 |
| Instruction and Curriculum Development Services | 78,060.39 | 26,326.74 |
| Instructional Staff Training Services | 236,809.01 | 219,940.67 |
| Instruction Related Technology | 55,603.40 | 40,619.18 |
| School Board | 332,748.90 | 335,176.39 |
| General Administration | 200,067.88 | 262,534.42 |
| School Administration | 459,226.61 | 304,922.61 |
| Facilities Acquisition and Construction | 564,215.88 | 642,638.61 |
| Fiscal Services | 419,806.19 | 441,532.85 |
| Food Services | 930,867.85 | 836,010.08 |
| Central Services | 356,937.16 | 315,937.14 |
| Pupil Transportation Services | 1,048,016.15 | 948,588.75 |
| Operation of Plant | 910,718.14 | 939,536.61 |
| Maintenance of Plant | 305,646.40 | 299,874.56 |
| Administrative Technology Services | 55,807.90 | 51,604.43 |
| Unallocated Interest on Long-Term Debt | 685,275.37 | 723,103.20 |
| Unallocated Depreciation Expense | 1,342,752.93 | 1,382,079.18 |
| Loss on Disposal of Capital Assets | 16,320.92 | 55,861.36 |
| Total Functions/Program Expenses | 19,046,531.34 | 17,804,859.73 |
| Increase (Decrease) in Net Assets | \$ (1,179,652.09) | \$ 481,449.15 |

Property taxes decreased by \$1,805,705.36, due to a decrease in the taxable property values, which have dropped almost 41 percent over the last two fiscal years. Grants and contributions not restricted to specific programs increased by \$1,464,432.33 and was mostly attributable to the increase in funds received through the American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund. Total expenses increased by \$1,241,671.61 from the previous fiscal year, mainly due to the District hiring approximately 30 new full-time employees.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

- **General Fund.** The General Fund is the primary operating fund. At June 30, 2011, the General Fund's unassigned fund balance is \$617,169.24, while the total fund balance is \$835,328.03. The total fund balance decreased by \$734,724.48 or 47 percent from the prior fiscal year. The decrease is primarily due to the decrease in taxable property values. As a measure of the General Fund liquidity, it may be useful to compare unassigned fund balances to total expenditures. The unassigned fund balance is 5 percent of total General Fund expenditures.
- **Special Revenue – Federal Economic Stimulus Fund.** The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$1,664,030.56 each. The District uses these funds to account for certain Federal program resources related to the American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.
- **Capital Projects – Local Capital Improvement Fund.** The Capital Projects – Local Capital Improvement Fund generates revenue from the local capital improvement tax levy for Board advertised projects, including new construction and renovation and remodeling. The fund balance at June 30, 2011, is \$6,187,246.76, which is a decrease of \$424,243.58 or 6 percent from the prior fiscal year. This decrease is due to the decrease in taxable property values. It should be noted that \$1,773,122 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

While the original budgeted revenues were consistent with final budgeted amounts, the final budgeted expenditures were \$726,822.14 more than the original budgeted amounts. The increase between the original and final budgeted expenditures was primarily due to personnel bonuses and increased fuel, maintenance and energy costs. There were no noteworthy variances between the final budgeted and actual revenues or expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$58,464,057.50 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. One major project is under way and should be completed by the end of the 2011-12 fiscal year with a projected cost of less than \$2,000,000.

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

Long-Term Debt

Long-term debt consists of two promissory notes from the Bank of America for a lease-purchase agreement with the Corporation, whereby the District secured financing of educational facilities in the amount of \$16,350,000 at an interest rate of 4.58 percent. The purpose of this debt was for partial funding of construction of the District's new K-12 Franklin County School. Interest and principal totaling \$1,537,740.05 will be paid every June 30 until paid in full on June 30, 2023.

Additional information on the District's long-term debt can be found in Notes 5 and 6 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designated to provide a general overview of the Franklin County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Financial and Personnel Services, Franklin County District School Board, 85 School Road, Suite 1, Eastpoint, FL 32328.

BASIC FINANCIAL STATEMENTS

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

| | Primary Government Governmental Activities | Component Unit |
|--|---|------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 7,389,503.65 | \$ 1,142,710.00 |
| Investments - Other | | 196,517.00 |
| Accounts Receivable | 0.53 | 142.00 |
| Due from Other Agencies | 474,822.39 | 47,989.00 |
| Inventories | 126,146.82 | |
| Investments in SBA Fund B Surplus Funds Trust Fund | 336,654.76 | |
| Capital Assets: | | |
| Nondepreciable Capital Assets | 14,822,005.66 | |
| Depreciable Capital Assets, Net | 43,642,051.84 | 1,005,783.00 |
| TOTAL ASSETS | \$ 66,791,185.65 | \$ 2,393,141.00 |
| LIABILITIES | | |
| Salaries and Benefits Payable | \$ | \$ 81,227.00 |
| Payroll Deductions and Withholdings | 443.62 | |
| Accounts Payable | 163,473.85 | |
| Due to Other Agencies | 71,579.22 | |
| Deposits Payable | 108,132.14 | |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 980,370.66 | 25,583.00 |
| Portion Due After One Year | 13,721,700.55 | 29,432.00 |
| Total Liabilities | 15,045,700.04 | 136,242.00 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 44,559,717.99 | 972,417.00 |
| Restricted for: | | |
| State Required Carryover Programs | 45,160.98 | |
| Capital Projects | 6,910,142.51 | |
| Food Service | 228,690.86 | |
| Debt Service | 9,337.92 | |
| Workforce Development | 164,997.19 | |
| Other Purposes | | 5,433.00 |
| Unrestricted (Deficit) | (172,561.84) | 1,279,049.00 |
| Total Net Assets | 51,745,485.61 | 2,256,899.00 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 66,791,185.65 | \$ 2,393,141.00 |

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

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**FRANKLIN 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 | \$ 10,503,448.30 | \$ 16,202.09 | \$ | \$ |
| Pupil Personnel Services | 391,954.80 | | | |
| Instructional Media Services | 152,247.16 | | | |
| Instruction and Curriculum Development Services | 78,060.39 | | | |
| Instructional Staff Training Services | 236,809.01 | | | |
| Instruction Related Technology | 55,603.40 | | | |
| School Board | 332,748.90 | | | |
| General Administration | 200,067.88 | | | |
| School Administration | 459,226.61 | | | |
| Facilities Acquisition and Construction | 564,215.88 | | | 59,236.72 |
| Fiscal Services | 419,806.19 | | | |
| Food Services | 930,867.85 | 128,983.26 | 845,971.59 | |
| Central Services | 356,937.16 | | | |
| Pupil Transportation Services | 1,048,016.15 | | | |
| Operation of Plant | 910,718.14 | | | |
| Maintenance of Plant | 305,646.40 | | | 280,597.00 |
| Administrative Technology Services | 55,807.90 | | | |
| Unallocated Interest on Long-Term Debt | 685,275.37 | | | |
| Unallocated Depreciation Expense* | 1,342,752.93 | | | |
| Loss on Disposal of Capital Assets | 16,320.92 | | | |
| Total Governmental Activities | \$ 19,046,531.34 | \$ 145,185.35 | \$ 845,971.59 | \$ 339,833.72 |
| Component Unit | | | | |
| The Apalachicola Bay Charter School, Inc. | \$ 2,567,306.00 | \$ 0.00 | \$ 532,553.00 | \$ 242,833.00 |

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

Special Items:

Impairment Loss on Land

Donated Value of Land Usage/Labor and Materials

Gain of Disposal of Fixed Assets

Total General Revenues and Special Items

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

| Net (Expense) Revenue and Changes in Net Assets | |
|---|------------------------|
| Primary Government | Component |
| Governmental | Unit |
| Activities | |
| \$ (10,487,246.21) | \$ |
| (391,954.80) | |
| (152,247.16) | |
| (78,060.39) | |
| (236,809.01) | |
| (55,603.40) | |
| (332,748.90) | |
| (200,067.88) | |
| (459,226.61) | |
| (504,979.16) | |
| (419,806.19) | |
| 44,087.00 | |
| (356,937.16) | |
| (1,048,016.15) | |
| (910,718.14) | |
| (25,049.40) | |
| (55,807.90) | |
| (685,275.37) | |
| (1,342,752.93) | |
| (16,320.92) | |
| <u>(17,715,540.68)</u> | |
| | <u>(1,791,920.00)</u> |
| 8,545,968.22 | |
| 1,946,579.28 | |
| 5,900,697.90 | 2,300,911.00 |
| 21,817.29 | 9,056.00 |
| 120,825.90 | |
| | (105,000.00) |
| | 15,142.00 |
| | <u>26,852.00</u> |
| <u>16,535,888.59</u> | <u>2,246,961.00</u> |
| (1,179,652.09) | 455,041.00 |
| <u>52,925,137.70</u> | <u>1,801,858.00</u> |
| <u>\$ 51,745,485.61</u> | <u>\$ 2,256,899.00</u> |

**FRANKLIN 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 |
|--|------------------------|---|--|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 4,510,585.25 | \$ | \$ 2,232,131.57 |
| Accounts Receivable | 0.53 | | |
| Due from Other Funds | 491,007.55 | | 4,025,424.13 |
| Due from Other Agencies | 23,590.32 | 94,816.22 | |
| Inventories | | | |
| Investments in SBA Fund B Surplus Funds Trust Fund | 8,000.62 | | 277,646.05 |
| | <u>8,000.62</u> | | <u>277,646.05</u> |
| TOTAL ASSETS | \$ 5,033,184.27 | \$ 94,816.22 | \$ 6,535,201.75 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Payroll Deductions and Withholdings | \$ 16,481.64 | \$ 88,595.87 | \$ 18,783.18 |
| Accounts Payable | 4,029,518.09 | 6,220.35 | 329,171.81 |
| Due to Other Funds | 43,724.90 | | |
| Due to Other Agencies | 108,131.61 | | |
| Deposits Payable | | | |
| | <u>4,197,856.24</u> | <u>94,816.22</u> | <u>347,954.99</u> |
| Total Liabilities | 4,197,856.24 | 94,816.22 | 347,954.99 |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Inventory | | | |
| Fund B Investments | 8,000.62 | | 277,646.05 |
| Total Nonspendable Fund Balance | <u>8,000.62</u> | | <u>277,646.05</u> |
| Restricted for: | | | |
| State Required Carryover Programs | 45,160.98 | | |
| Workforce Development | 164,997.19 | | |
| Capital Projects | | | 5,909,600.71 |
| Food Service | | | |
| Debt Service | | | |
| Total Restricted Fund Balance | <u>210,158.17</u> | | <u>5,909,600.71</u> |
| Unassigned Fund Balance | <u>617,169.24</u> | | |
| | <u>835,328.03</u> | | <u>6,187,246.76</u> |
| Total Fund Balances | 835,328.03 | | 6,187,246.76 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 5,033,184.27 | \$ 94,816.22 | \$ 6,535,201.75 |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| <u> </u> | <u> </u> |
| \$ 646,786.83 | \$ 7,389,503.65 |
| | 0.53 |
| 89,722.26 | 4,606,153.94 |
| 356,415.85 | 474,822.39 |
| 126,146.82 | 126,146.82 |
| 51,008.09 | 336,654.76 |
| <u> </u> | <u> </u> |
| \$ 1,270,079.85 | \$ 12,933,282.09 |
| <u> </u> | <u> </u> |

| | |
|-----------------------------|-----------------------------|
| \$ 443.62 | \$ 443.62 |
| 39,613.16 | 163,473.85 |
| 241,243.69 | 4,606,153.94 |
| 27,854.32 | 71,579.22 |
| 0.53 | 108,132.14 |
| <u> </u> | <u> </u> |
| 309,155.32 | 4,949,782.77 |
| <u> </u> | <u> </u> |

| | |
|-----------------------------|-----------------------------|
| 126,146.82 | 126,146.82 |
| 51,008.09 | 336,654.76 |
| <u> </u> | <u> </u> |
| 177,154.91 | 462,801.58 |
| <u> </u> | <u> </u> |

| | |
|-----------------------------|-----------------------------|
| | 45,160.98 |
| | 164,997.19 |
| 671,909.06 | 6,581,509.77 |
| 102,544.04 | 102,544.04 |
| 9,316.52 | 9,316.52 |
| <u> </u> | <u> </u> |
| 783,769.62 | 6,903,528.50 |
| <u> </u> | <u> </u> |
| | 617,169.24 |

| | |
|-----------------------------|-----------------------------|
| 960,924.53 | 7,983,499.32 |
| <u> </u> | <u> </u> |
| \$ 1,270,079.85 | \$ 12,933,282.09 |
| <u> </u> | <u> </u> |

FRANKLIN 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 \$ 7,983,499.32

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. 58,464,057.50

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:

| | | |
|---------------------------------------|------------------|-----------------|
| Notes Payable | \$ 13,904,339.51 | |
| Compensated Absences Payable | 603,244.70 | |
| Other Postemployment Benefits Payable | 194,487.00 | (14,702,071.21) |

Total Net Assets - Governmental Activities \$ 51,745,485.61

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

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

| | <u>General Fund</u> | <u>Special Revenue - Federal Economic Stimulus Fund</u> | <u>Capital Projects - Local Capital Improvement Fund</u> |
|--|-------------------------|---|--|
| Revenues | | | |
| Intergovernmental: | | | |
| Federal Through State and Local State | \$ 193,596.54 | \$ 1,664,030.56 | \$ |
| Local: | | | |
| Property Taxes | 8,545,968.22 | | 1,946,579.28 |
| Charges for Services - Food Service | | | |
| Miscellaneous | <u>147,571.39</u> | | <u>47,304.59</u> |
| Total Revenues | <u>10,838,287.85</u> | <u>1,664,030.56</u> | <u>1,993,883.87</u> |
| Expenditures | | | |
| Current - Education: | | | |
| Instruction | 7,806,977.87 | 1,321,662.48 | |
| Pupil Personnel Services | 314,408.49 | 50,888.14 | |
| Instructional Media Services | 152,247.16 | | |
| Instruction and Curriculum Development Services | | 6,987.63 | |
| Instructional Staff Training Services | | 169,366.30 | |
| Instruction Related Technology | 46,176.91 | | |
| School Board | 325,794.13 | | |
| General Administration | 192,763.13 | 2,785.16 | |
| School Administration | 454,688.76 | 1,291.80 | |
| Facilities Acquisition and Construction | | | 386,920.47 |
| Fiscal Services | 417,222.59 | 2,583.60 | |
| Food Services | | 3,444.80 | |
| Central Services | 331,554.96 | 5,770.69 | |
| Pupil Transportation Services | 843,837.23 | 7,320.20 | |
| Operation of Plant | 899,514.07 | 3,444.80 | |
| Maintenance of Plant | 303,924.00 | 1,722.40 | |
| Administrative Technology Services | 55,807.90 | | |
| Fixed Capital Outlay: | | | |
| Facilities Acquisition and Construction | | | 85,050.00 |
| Other Capital Outlay | 12,000.00 | 86,762.56 | 200,512.06 |
| Debt Service: | | | |
| Principal | | | |
| Interest and Fiscal Charges | | | |
| Total Expenditures | <u>12,156,917.20</u> | <u>1,664,030.56</u> | <u>672,482.53</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(1,318,629.35)</u> | <u>0.00</u> | <u>1,321,401.34</u> |
| Other Financing Sources (Uses) | | | |
| Transfers In | 624,901.87 | | 10,997.00 |
| Transfers Out | <u>(40,997.00)</u> | | <u>(1,756,641.92)</u> |
| Total Other Financing Sources (Uses) | <u>583,904.87</u> | | <u>(1,745,644.92)</u> |
| Net Change in Fund Balances | (734,724.48) | | (424,243.58) |
| Fund Balances, Beginning | <u>1,570,052.51</u> | | <u>6,611,490.34</u> |
| Fund Balances, Ending | <u>\$ 835,328.03</u> | <u>\$ 0.00</u> | <u>\$ 6,187,246.76</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| <u> </u> | <u> </u> |
| \$ 2,390,321.40 | \$ 4,247,948.50 |
| 802,569.49 | 2,753,721.19 |
| | 10,492,547.50 |
| 128,983.26 | 128,983.26 |
| <u>48,802.82</u> | <u>243,678.80</u> |
| <u>3,370,676.97</u> | <u>17,866,879.25</u> |
| | |
| 1,299,322.77 | 10,427,963.12 |
| 26,658.17 | 391,954.80 |
| | 152,247.16 |
| 71,072.76 | 78,060.39 |
| 67,442.71 | 236,809.01 |
| 9,426.49 | 55,603.40 |
| 6,954.77 | 332,748.90 |
| 4,519.59 | 200,067.88 |
| 3,246.05 | 459,226.61 |
| 177,295.41 | 564,215.88 |
| | 419,806.19 |
| 927,423.05 | 930,867.85 |
| 19,611.51 | 356,937.16 |
| 46,917.72 | 898,075.15 |
| 7,759.27 | 910,718.14 |
| | 305,646.40 |
| | 55,807.90 |
| | 85,050.00 |
| 1,634.85 | 300,909.47 |
| 852,490.26 | 852,490.26 |
| <u>685,275.37</u> | <u>685,275.37</u> |
| | |
| <u>4,207,050.75</u> | <u>18,700,481.04</u> |
| | |
| <u>(836,373.78)</u> | <u>(833,601.79)</u> |
| | |
| 1,567,740.05 | 2,203,638.92 |
| <u>(406,000.00)</u> | <u>(2,203,638.92)</u> |
| | |
| <u>1,161,740.05</u> | <u> </u> |
| | |
| 325,366.27 | (833,601.79) |
| <u>635,558.26</u> | <u>8,817,101.11</u> |
| | |
| <u>\$ 960,924.53</u> | <u>\$ 7,983,499.32</u> |

**FRANKLIN 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 \$ (833,601.79)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period. (1,106,734.46)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (16,320.92)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (26,107.18)

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. (49,378.00)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of activities. This is the amount of repayments in the current year. 852,490.26

Change in Net Assets - Governmental Activities \$ (1,179,652.09)

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

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

| | <u>Agency Funds</u> |
|---------------------------|-----------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 113,733.00 |
| Inventory | <u>5,198.00</u> |
| TOTAL ASSETS | <u>\$ 118,931.00</u> |
| LIABILITIES | |
| Internal Accounts Payable | <u>\$ 118,931.00</u> |

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Franklin 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 Franklin 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 Franklin 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 Franklin School Board Leasing Corporation (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 Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements include the financial data of The Apalachicola Bay Charter School, Inc., d/b/a Apalachicola Bay Charter School, Inc. (ABC). The Apalachicola Bay Charter School, Inc., is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act, and Section 1002.33, Florida Statutes. Previously, the charter school operated under two contracts; one for grades K-5 and the other for grades 6-8. Effective July 1, 2010, the contracts were consolidated into one contract for one school for grades K-8. The contract is effective for five years ending June 30, 2015. At the end of the term of the contract, the District may choose not to renew the contract under grounds specified in the contract, in which case the District is required to notify the charter school in writing at least 90 days prior to the contract's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a charter school is dissolved or terminated, any unencumbered funds and all charter school property purchased with public funds shall automatically revert to the District. During the term of the contract, the District may also terminate the contract if good cause is shown. The Apalachicola Bay Charter School, Inc., is considered a component unit of the District, since it is fiscally dependent on the District to levy taxes for its support.

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

An annual postaudit of The Apalachicola Bay Charter School, Inc.'s financial statements is conducted by an independent certified accountant and is filed in the District's administrative office.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the 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 identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

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

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fiduciary fund type:

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

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

➤ **Basis of Accounting**

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. 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 Apalachicola Bay Charter School, Inc., is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

➤ **Deposits and Investments**

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

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

Investments consist of amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. 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.

**FRANKLIN 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.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, except that the 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 and 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 \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|------------------------------------|------------------------|
| Improvements Other than Buildings | 15 - 30 years |
| Buildings and Fixed Equipment | 15 - 50 years |
| Furniture, Fixtures, and Equipment | 3 - 15 years |
| Motor Vehicles | 5 - 10 years |
| Computer Software | 5 years |

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

➤ **Long-Term Liabilities**

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

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

In the governmental fund 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

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

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**

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 also received an allocation under the Classrooms First Program. 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 Franklin County Property Appraiser, and property taxes are collected by the Franklin County Tax Collector.

The Board adopted the 2010 tax levy on September 9, 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.

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.

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

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

| Investments | Maturities | Fair Value |
|--|-------------------|------------------------|
| State Board of Administration (SBA): | | |
| Florida PRIME (1) | 31 Day Average | \$ 6,905,082.77 |
| Fund B Surplus Funds Trust Fund (Fund B) | 7.16 Year Average | <u>336,654.76</u> |
| Total Investments | | <u>\$ 7,241,737.53</u> |

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

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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

**FRANKLIN COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 State Board of Administration (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's investment policy limits investments to bids from qualified depositories, as defined in Section 280.02, Florida Statutes; certificates of deposit; time deposits; securities of the United States Government; State managed cooperative investment plans; or other forms of authorized investments in accordance with Section 215.415, Florida Statutes.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

**FRANKLIN COUNTY
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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 | \$ 4,711,650.00 | \$ | \$ | \$ 4,711,650.00 |
| Land Improvements - Nondepreciable | 10,025,305.66 | | | 10,025,305.66 |
| Construction In Progress | | 85,050.00 | | 85,050.00 |
| Total Capital Assets Not Being Depreciated | 14,736,955.66 | 85,050.00 | | 14,822,005.66 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 5,082,392.64 | | | 5,082,392.64 |
| Buildings and Fixed Equipment | 41,915,634.04 | | 38,273.00 | 41,877,361.04 |
| Furniture, Fixtures, and Equipment | 1,046,898.05 | 169,054.23 | 159,156.98 | 1,056,795.30 |
| Motor Vehicles | 1,691,418.58 | 101,267.00 | 7,978.00 | 1,784,707.58 |
| Computer Software | 621,898.67 | 30,588.24 | 244,377.70 | 408,109.21 |
| Total Capital Assets Being Depreciated | 50,358,241.98 | 300,909.47 | 449,785.68 | 50,209,365.77 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 714,056.97 | 338,289.52 | | 1,052,346.49 |
| Buildings and Fixed Equipment | 2,735,128.68 | 844,357.83 | 37,316.18 | 3,542,170.33 |
| Furniture, Fixtures, and Equipment | 511,149.18 | 108,686.67 | 152,008.75 | 467,827.10 |
| Motor Vehicles | 1,058,802.45 | 149,941.00 | 7,978.00 | 1,200,765.45 |
| Computer Software | 488,947.48 | 51,418.91 | 236,161.83 | 304,204.56 |
| Total Accumulated Depreciation | 5,508,084.76 | 1,492,693.93 | 433,464.76 | 6,567,313.93 |
| Total Capital Assets Being Depreciated, Net | 44,850,157.22 | (1,191,784.46) | 16,320.92 | 43,642,051.84 |
| Governmental Activities Capital Assets, Net | \$ 59,587,112.88 | \$ (1,106,734.46) | \$ 16,320.92 | \$ 58,464,057.50 |

Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|------------------------|
| GOVERNMENTAL ACTIVITIES | |
| Pupil Transportation Services | \$ 149,941.00 |
| Unallocated | 1,342,752.93 |
| Total Depreciation Expense - Governmental Activities | \$ 1,492,693.93 |

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

5. NOTES PAYABLE

The District entered into a financing arrangement on December 29, 2006, which was characterized as a lease-purchase agreement, with the Franklin School Board Leasing Corporation (Corporation), whereby the District secured financing of various educational facilities in the total amount of \$16,350,000. The financing was accomplished through the issuance of two promissory notes, Note 2006 and Note 2007, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Corporation, with a rental fee of \$1 per year. The initial term of the lease commenced on December 29, 2006, and ends on the earlier of the date on which the notes have been paid, or June 30, 2034 (both dates inclusive). The property covered by the ground lease is, 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 site included under the Ground Lease Agreement to the Corporation, or the Bank as the assignee of the Corporation.

The District property included in the ground lease under this arrangement is located in the West one half of Fractional Section 23, Township 8 South, Range 6 West, as more fully described in the Ground Lease Agreement. The lease payments are payable by the District annually, on June 30, at an interest rate of 4.58 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 | \$ 1,537,740.06 | \$ 890,370.66 | \$ 647,369.40 |
| 2013 | 1,537,740.06 | 933,356.03 | 604,384.03 |
| 2014 | 1,537,740.05 | 976,763.37 | 560,976.68 |
| 2015 | 1,537,740.06 | 1,022,120.47 | 515,619.59 |
| 2016 | 1,537,740.06 | 1,068,301.15 | 469,438.91 |
| 2017-2021 | 7,688,700.27 | 6,139,633.52 | 1,549,066.75 |
| 2022-2023 | 3,075,480.11 | 2,873,794.31 | 201,685.80 |
| Total Minimum Lease Payments | <u>\$ 18,452,880.67</u> | <u>\$ 13,904,339.51</u> | <u>\$ 4,548,541.16</u> |

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

6. CHANGES IN LONG-TERM LIABILITIES

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

| Description | Beginning Balance | Additions | Deductions | Ending Balance | Due In One Year |
|---------------------------------------|-------------------------|----------------------|----------------------|-------------------------|----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Notes Payable | \$ 14,756,829.77 | \$ | \$ 852,490.26 | \$ 13,904,339.51 | \$ 890,370.66 |
| Compensated Absences Payable | 577,137.52 | 120,058.16 | 93,950.98 | 603,244.70 | 90,000.00 |
| Other Postemployment Benefits Payable | 145,109.00 | 97,816.00 | 48,438.00 | 194,487.00 | |
| Total Governmental Activities | <u>\$ 15,479,076.29</u> | <u>\$ 217,874.16</u> | <u>\$ 994,879.24</u> | <u>\$ 14,702,071.21</u> | <u>\$ 980,370.66</u> |

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| Funds | Interfund | |
|---------------------------|------------------------|------------------------|
| | Receivables | Payables |
| Major: | | |
| General | \$ 491,007.55 | \$ 4,029,518.09 |
| Special Revenue: | | |
| Federal Economic Stimulus | | 6,220.35 |
| Capital Projects: | | |
| Local Capital Improvement | 4,025,424.13 | 329,171.81 |
| Nonmajor Governmental | 89,722.26 | 241,243.69 |
| Total | <u>\$ 4,606,153.94</u> | <u>\$ 4,606,153.94</u> |

The above interfund receivables and payables mainly represent moneys owed between the General Fund and the Capital Projects – Local Capital Improvement Fund for reimbursement of maintenance expenditures and for temporary loans and reimbursement for maintenance expenditures to the Special Revenue – Other Fund and Capital Projects - Public Education Capital Outlay Fund, respectively. The interfund receivable for the Capital Projects – Local Capital Improvement Fund was for property taxes recorded by the General Fund. These amounts are expected to be repaid within one year.

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

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

| Funds | Interfund | |
|---------------------------|-----------------|-----------------|
| | Transfers In | Transfers Out |
| Major: | | |
| General | \$ 624,901.87 | \$ 40,997.00 |
| Capital Projects: | | |
| Local Capital Improvement | 10,997.00 | 1,756,641.92 |
| Nonmajor Governmental | 1,567,740.05 | 406,000.00 |
| Total | \$ 2,203,638.92 | \$ 2,203,638.92 |

Transfers to the General Fund were for reimbursements of maintenance expenditures, payment for the District’s charter school, and property and casualty insurance premiums. Additionally, \$306,000 of unrestricted debt service moneys were transferred from a nonmajor debt service fund to the General Fund. Transfers to the Capital Projects - Local Capital Improvement Fund from the General Fund were to reimburse for excess transfers made in the 2009-10 fiscal year. Transfers to the nonmajor governmental funds were to pay debt service costs, reimburse expenditures for nonmajor capital projects funds, and to pay for salary increases of food service program employees.

8. 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.

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 Fund B investments 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.

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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➤ **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 committed fund balances 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 Director of Financial Services and not included in other categories. The District did not have any assigned fund balances at June 30, 2011.

➤ **Unassigned**

The portion of fund balance that is the 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.

9. 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> |
|---|------------------------|
| Categorical Educational Program - Class Size Reduction | \$ 1,301,801.00 |
| Gross Receipts Tax (Public Education Capital Outlay) | 280,597.00 |
| Florida Education Finance Program | 254,223.00 |
| Voluntary Prekindergarten Program | 154,322.41 |
| Charter School Capital Outlay Funds | 136,736.00 |
| School Recognition | 88,738.00 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 61,006.09 |
| Workforce Development Program | 52,825.00 |
| Food Service Supplement | 18,582.00 |
| Discretionary Lottery Funds | 4,230.00 |
| Mobile Home License Tax | 2,255.77 |
| Miscellaneous | 398,404.92 |
| Total | \$ 2,753,721.19 |

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

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

10. PROPERTY TAXES

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

| | <u>Millages</u> | <u>Taxes Levied</u> |
|----------------------------------|-----------------|---------------------|
| GENERAL FUND | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 2.6930 | \$ 5,580,249.49 |
| Prior Period Funding Adjustment | 0.0410 | 84,978.42 |
| Basic Discretionary Local Effort | 0.7480 | 1,549,961.07 |
| Critical Operating Needs | 0.2500 | 518,035.12 |
| Voted School Tax: | | |
| Additonal Operating | 0.5000 | 1,036,070.23 |
| CAPITAL PROJECTS FUNDS | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.0246 | 2,123,115.13 |
| Total | 5.2566 | \$ 10,892,409.46 |

11. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

**FRANKLIN COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 |
| 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.

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 \$558,268.86, \$584,747.87, and \$653,974.16, respectively, which were equal to the required contributions for each fiscal year. There were 13 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$61,775.63.

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.

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

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverages. 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, the Board contributes \$25,000 annually towards the cost of retiree life and health insurance premiums. Premiums for life insurance are fully paid by the Board and the remainder of the \$25,000 is divided equally between all retirees covered through the District's plan in the form of a subsidy to the health insurance premium. As the number of eligible retirees fluctuates, so does the amount of the subsidy. 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 through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 12 retirees received postemployment healthcare benefits and 89 retirees received life insurance coverage. The District's contribution to the OPEB obligation is the implicit subsidy for the retirees, which was \$48,438. Plan members receiving benefits contributed \$103,492, through their required contributions of \$701 per month for retiree-only coverage and \$1,103 for retiree and spouse coverage, depending on the health plan selected.

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

**FRANKLIN COUNTY
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| Description | Amount |
|---|------------|
| Normal Cost (service cost for one year) | \$ 28,573 |
| Amortization of Unfunded Actuarial Accrued Liability | 74,400 |
| Annual Required Contribution | 102,973 |
| Interest on Net OPEB Obligation | 6,167 |
| Adjustment to Annual Required Contribution | (11,324) |
| Annual OPEB Cost (Expense) | 97,816 |
| Contribution Toward the OPEB Cost | (48,438) |
| Increase in Net OPEB Obligation | 49,378 |
| Net OPEB Obligation, Beginning of Year | 145,109 |
| Net OPEB Obligation, End of Year | \$ 194,487 |

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 | \$ 168,454 | 57.3% | \$ 71,976 |
| 2009-10 | 173,978 | 58.0% | 145,109 |
| 2010-11 | 97,816 | 50.0% | 194,487 |

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$933,764, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$933,764, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,542,726, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.9 percent.

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

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

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 October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and to estimate the District’s 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.25 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after 8 years. The investment rate return and payroll growth include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 12 years.

13. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2011:

| Major Funds | | | | |
|--------------------|---|---|-----------------------------------|--------------------------------|
| General | Special Revenue - Federal Economic Stimulus | Capital Projects - Local Capital Improvement | Nonmajor Governmental Funds | Total Governmental Funds |
| \$ 0 | \$ 0 | \$ 1,773,122 | \$ 0 | \$ 1,773,122 |

Construction Contracts. Encumbrances include the following construction contract commitments at fiscal year-end:

| Project | Contract Amount | Completed to Date | Balance Committed |
|--|--------------------|----------------------|----------------------|
| Franklin County School Multi-Purpose Building: | | | |
| Architect | \$ 113,710.00 | \$ 85,050.00 | \$ 28,660.00 |
| Construction Manager | 1,744,462.00 | | 1,744,462.00 |
| Total | \$ 1,858,172.00 | \$ 85,050.00 | \$ 1,773,122.00 |

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

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 Franklin County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**FRANKLIN 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 | | | Variance with Final Budget - Positive (Negative) |
|--|------------------------|-----------------------|-----------------------|---|
| | Original Budget | Final Budget | Actual | |
| Revenues | | | | |
| Intergovernmental: | | | | |
| Federal Through State and Local | \$ 160,000.00 | \$ 193,597.00 | \$ 193,596.54 | \$ (0.46) |
| State | 1,879,990.00 | 1,953,280.00 | 1,951,151.70 | (2,128.30) |
| Local: | | | | |
| Property Taxes | 8,626,421.00 | 8,694,094.00 | 8,545,968.22 | (148,125.78) |
| Miscellaneous | 95,000.00 | 99,705.13 | 147,571.39 | 47,866.26 |
| Total Revenues | 10,761,411.00 | 10,940,676.13 | 10,838,287.85 | (102,388.28) |
| Expenditures | | | | |
| Current - Education: | | | | |
| Instruction | 7,458,615.17 | 7,807,503.00 | 7,806,977.87 | 525.13 |
| Pupil Personnel Services | 303,818.58 | 314,408.00 | 314,408.49 | (0.49) |
| Instructional Media Services | 142,885.29 | 152,247.00 | 152,247.16 | (0.16) |
| Instruction and Curriculum Development Services | | | | |
| Instructional Staff Training Services | | | | |
| Instruction Related Technology | 66,993.56 | 46,177.00 | 46,176.91 | 0.09 |
| School Board | 330,147.91 | 325,814.00 | 325,794.13 | 19.87 |
| General Administration | 220,462.53 | 192,763.00 | 192,763.13 | (0.13) |
| School Administration | 444,618.50 | 454,290.00 | 454,688.76 | (398.76) |
| Fiscal Services | 399,708.95 | 417,223.00 | 417,222.59 | 0.41 |
| Food Services | | | | |
| Central Services | 315,265.69 | 331,555.00 | 331,554.96 | 0.04 |
| Pupil Transportation Services | 758,935.00 | 843,837.00 | 843,837.23 | (0.23) |
| Operation of Plant | 777,613.64 | 899,514.00 | 899,514.07 | (0.07) |
| Maintenance of Plant | 196,170.16 | 303,924.00 | 303,924.00 | |
| Administrative Technology Services | 14,705.88 | 55,508.00 | 55,807.90 | (299.90) |
| Fixed Capital Outlay: | | | | |
| Other Capital Outlay | | 12,000.00 | 12,000.00 | |
| Total Expenditures | 11,429,940.86 | 12,156,763.00 | 12,156,917.20 | (154.20) |
| Excess (Deficiency) of Revenues Over Expenditures | (668,529.86) | (1,216,086.87) | (1,318,629.35) | (102,542.48) |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 731,000.00 | 624,902.00 | 624,901.87 | (0.13) |
| Transfers Out | (30,000.00) | (40,997.00) | (40,997.00) | |
| Total Other Financing Sources (Uses) | 701,000.00 | 583,905.00 | 583,904.87 | (0.13) |
| Net Change in Fund Balances | 32,470.14 | (632,181.87) | (734,724.48) | (102,542.61) |
| Fund Balances, Beginning | 1,570,052.51 | 1,570,052.51 | 1,570,052.51 | |
| Fund Balances, Ending | \$ 1,602,522.65 | \$ 937,870.64 | \$ 835,328.03 | \$ (102,542.61) |

| Special Revenue - Federal Economic Stimulus Fund | | | |
|--|---------------------|---------------------|--|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive - (Negative) |
| \$ 774,166.00 | \$ 1,758,926.00 | \$ 1,664,030.56 | \$ (94,895.44) |
| <u>774,166.00</u> | <u>1,758,926.00</u> | <u>1,664,030.56</u> | <u>(94,895.44)</u> |
| 561,907.00 | 1,321,662.48 | 1,321,662.48 | |
| 150,425.00 | 50,888.14 | 50,888.14 | |
| 6,998.00 | 7,655.00 | 6,987.63 | 667.37 |
| 28,772.00 | 169,366.30 | 169,366.30 | |
| 8,872.00 | 2,785.16 | 2,785.16 | |
| | 1,291.80 | 1,291.80 | |
| | 2,583.60 | 2,583.60 | |
| | 3,444.80 | 3,444.80 | |
| 929.00 | 5,771.00 | 5,770.69 | 0.31 |
| 13,660.00 | 7,320.20 | 7,320.20 | |
| 2,603.00 | 3,445.00 | 3,444.80 | 0.20 |
| | 1,722.40 | 1,722.40 | |
| | <u>86,762.56</u> | <u>86,762.56</u> | |
| <u>774,166.00</u> | <u>1,664,698.44</u> | <u>1,664,030.56</u> | <u>667.88</u> |
| | <u>94,227.56</u> | | <u>(94,227.56)</u> |
| | <u>(28,460.00)</u> | | <u>28,460.00</u> |
| | <u>(28,460.00)</u> | | <u>28,460.00</u> |
| | <u>65,767.56</u> | | <u>(65,767.56)</u> |
| <u>\$ 0.00</u> | <u>\$ 65,767.56</u> | <u>\$ 0.00</u> | <u>\$ (65,767.56)</u> |

**FRANKLIN 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] |
|--------------------------------|---|--|-------------------------------------|---------------------------|----------------------------|--|
| October 1, 2007 | \$ 0 | \$ 1,534,105 | \$ 1,534,105 | 0% | \$ 5,372,276 | 28.6% |
| October 1, 2010 | 0 | 933,764 | 933,764 | 0% | 5,542,726 | 16.9% |

**FRANKLIN 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.

2. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2011, expenditures exceeded appropriations for the following individual funds:

| Fund/Activity | Expenditures | | |
|------------------------------------|---------------|---------------|-------------------------|
| | Budget | Actual | Variance Unfavorable |
| General: | | | |
| Pupil Personnel Services | \$ 314,408.00 | \$ 314,408.49 | \$ 0.49 |
| Instructional Media Services | 152,247.00 | 152,247.16 | 0.16 |
| General Administration | 192,763.00 | 192,763.13 | 0.13 |
| School Administration | 454,290.00 | 454,688.76 | 398.76 |
| Pupil Transportation Services | 843,837.00 | 843,837.23 | 0.23 |
| Operation of Plant | 899,514.00 | 899,514.07 | 0.07 |
| Administrative Technology Services | 55,508.00 | 55,807.90 | 299.90 |

3. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$933,764 was significantly lower than the October 1, 2007, liability of \$1,534,105 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of retirees currently receiving postemployment health care benefits decreased from 20 in the October 1, 2007, valuation to 12 this year. At the same time, the number of active employees eligible for future postemployment benefits decreased from 166 to 157. These population changes decreased the cost and liability in the October 1, 2010, valuation.
- The total cost of coverage increased from \$623 per employee per month (as expected for the 2008 calendar year) to \$813 per employee per month for the calendar year 2010, which is higher than the projected \$737 per employee per month. This change increased the cost and liability on the October 1, 2010, valuation.
- Retiree coverage acceptance and continuation assumptions were revised. In the October 1, 2007, valuation, the assumption was that 40 percent of retiring employees under the age of 65 would elect to continue medical coverage through the District’s plan. However, data collected for the October 1, 2010, valuation suggests that smaller proportion of retirees have been making that choice in the recent years and, consequently, a change in the assumption to 25 percent of employees electing to keep the coverage upon retirement was made. This change significantly decreased the cost and liability on the October 1, 2010, valuation.

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2011**

- Revisions to the assumed trend of Medical/Rx cost was increased. In the October 1, 2007, valuation, it was assumed a 0 percent trend for the year beginning January 1, 2008, and further followed by a 9 percent increase for the year beginning January 1, 2009, with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. Revisions were made to trend rates for costs and premiums charged to retirees for the year beginning January 1, 2011, to be 9 percent. A similar pattern as used previously was used: 8.5 percent for costs and premiums for year beginning January 1, 2012, and decreasing by 0.5 percent each subsequent year until reaching the ultimate value of 5 percent was made. It was recognized in the projections that 2011 plan design changes resulted in significant reduction in costs and premiums and, consequently, per capita costs and premiums for the year beginning January 1, 2011, are assumed to be 14 percent lower than for the 2010 calendar year. This significantly decreased the costs and liabilities resulting on the October 1, 2010, valuation.
- Revisions were made to certain demographic assumptions to reflect changes made in the Florida Retirement System for its July 1, 2009, actuarial valuation, increasing the cost and liability on the October 1, 2010, valuation.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**FRANKLIN 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) | Amount Provided to Subrecipients |
|--|---|-------------------------------|----------------------------|----------------------------------|
| United States Department of Agriculture: | | | | |
| Indirect: | | | | |
| Child Nutrition Cluster: | | | | |
| Florida Department of Education: | | | | |
| School Breakfast Program | 10.553 | 321 | \$ 218,463.98 | \$ |
| National School Lunch Program | 10.555 | 300, 350 | 438,769.74 | |
| Summer Food Service Program for Children | 10.559 | 323 | 32,818.95 | |
| Florida Department of Agriculture and Consumer Services: | | | | |
| National School Lunch Program | 10.555 (2)(A) | None | 61,289.72 | |
| Total Child Nutrition Cluster | | | 751,342.39 | |
| Florida Department of Agriculture and Consumer Services: | | | | |
| Fresh Fruit and Vegetable Program | 10.582 | 330 | 57,349.92 | |
| Total United States Department of Agriculture | | | 808,692.31 | |
| United States Department of Education: | | | | |
| Indirect: | | | | |
| Special Education Cluster: | | | | |
| Florida Department of Education: | | | | |
| Special Education - Grants to States | 84.027 | 263 | 204,762.50 | 29,895.14 |
| Special Education - Preschool Grants | 84.173 | 267 | 29,217.70 | 13,583.67 |
| ARRA - Special Education - Grants to States, Recovery Act | 84.391 | 263 | 198,420.71 | 3,527.98 |
| Total Special Education Cluster | | | 432,400.91 | 47,006.79 |
| Title I, Part A Cluster: | | | | |
| Florida Department of Education: | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 222, 226, 228 | 694,746.62 | 55,876.59 |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 226 | 168,246.95 | 763.01 |
| Total Title I, Part A Cluster | | | 862,993.57 | 56,639.60 |
| State Fiscal Stabilization Fund Cluster: | | | | |
| Florida Department of Education: | | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | 591 | 359,870.00 | 75,366.98 |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | 84.397 | 592 | 13,423.00 | |
| Total State Fiscal Stabilization Fund Cluster | | | 373,293.00 | 75,366.98 |
| Florida Department of Education: | | | | |
| Adult Education - Basic Grants to States | 84.002 | 191 | 40,569.94 | |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 54,437.86 | |
| Twenty-First Century Community Learning Centers | 84.287 | 244 | 389,538.06 | |
| Rural Education | 84.358 | 110 | 29,453.50 | |
| Improving Teacher Quality State Grants | 84.367 | 224 | 120,025.63 | |
| ARRA - Education Technology State Grants, Recovery Act | 84.386 | 121, 122 | 676,481.78 | 248,852.01 |
| ARRA - Education for Homeless Children and Youth, Recovery Act | 84.387 | 127 | 17,364.41 | |
| Education Jobs Fund | 84.410 | 541 | 230,223.71 | 59,785.00 |
| Washington County District School Board: | | | | |
| ARRA - Education Technology State Grants, Recovery Act | 84.386(2)(B) | None | 31,001.53 | |
| Total United States Department of Education | | | 3,257,783.90 | 487,650.38 |
| Total Expenditures of Federal Awards | | | \$ 4,066,476.21 | \$ 487,650.38 |

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:

(A) 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

(B) ARRA - Education Technology State Grants, Recovery Act - Represents the fair value of equipment received during the fiscal year.



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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 Franklin 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 Franklin 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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 a material weakness, as defined above. However, we identified a certain deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 28, 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 Franklin 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 28, 2012

**FRANKLIN 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)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA); Education Technology State Grants (CFDA No. 84.386 - 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? No

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District’s 2010-11 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved. For example, the District did not properly identify and record certain accruals at year-end, resulting in understatements of accounts payable, due from other agencies, instruction expenditures, and Federal-through-State and local revenue by \$83,717 each in the Special Revenue - Federal Economic Stimulus Fund on the governmental fund financial statements. In addition, the District inadvertently recorded certain investment earnings incorrectly, resulting in overstatements of the cash and cash equivalents account and miscellaneous local revenue by \$71,231 each in the Capital Projects – Local Capital Improvement Fund. Misreporting account balances and transactions may cause financial statement users to incorrectly assess the District’s financial position.

We extended our procedures to determine the adjustments necessary to properly report these accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting. Similar findings were noted in previous audit reports, most recently in our report No. 2011-137.

Recommendation: The District should enhance procedures to ensure that information is properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Journal Entries and Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. The District reported cash and cash equivalents balances at June 30, 2011, totaling approximately \$7.4 million, including cash in bank totaling approximately \$500,000.

The District maintained 11 bank accounts, and personnel manually recorded the cash transactions in a ledger to monitor cash needs and periodically recorded the transactions in the general ledger. While District personnel generally performed monthly bank account reconciliations, and the reconciliations were approved by supervisory personnel, the June 2011 reconciliations for the school food service, debt service sinking, and capital projects funds’

bank accounts indicated unreconciled differences ranging from approximately \$2,500 to \$15,000. Our testing identified, and District personnel agreed, that the differences occurred mainly because journal entries were not timely recorded in the general ledger. Other contributing factors to the differences were the erroneous consideration of due to and from other agency amounts, and voided checks as outstanding checks, on the reconciliations. Absent timely recorded entries to the general ledger and proper bank account reconciliations, errors or fraud could occur without timely detection.

Recommendation: The District should enhance procedures to ensure timely recording of journal entries and proper bank account reconciliations.

Finding No. 3: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic fund 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.

The District regularly used EFTs for retirement benefits and Federal withholding taxes and, in May 2011, the District began making EFTs between District bank accounts and for direct deposits of employee pay. The Board established an agreement with a bank to provide various services, including EFTs, and three agreements with the State Board of Administration (SBA) for the District's investment accounts. We noted that controls over the EFT process could be enhanced, as follows:

- While the District used informal processes including oral instructions and transfer control documents to monitor and control EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes.
- As authorized by the bank agreement, the director of financial services (director), accountant, and payroll specialist initiated and authorized EFTs, and the EFTs were documented on transfer forms, approved by the director. In addition, the accountant was responsible for recording journal entries and performing bank account reconciliations. However, allowing the director the ability to initiate and approve EFTs, without secondary approval before an EFT is made, and the accountant the ability to record journal entries, reconcile bank statements, and make EFTs, does not provide for appropriate separation of duties.
- The District's agreements with SBA authorized a former accountant, who terminated employment with the District in February 2011, to make EFTs. In August 2011, the District revised one of the three agreements to delete authorization of this former employee; however due to oversights, the District did not delete the former accountant's authorization for the other two agreements until January 2012.

District personnel indicated that the director of financial services approves journal entries, bank reconciliations, and 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 policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should adopt formal 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. Such procedures should ensure that the duties of those responsible for journal entries, bank reconciliations, and initiating and authorizing EFTs are appropriately separated; and that appropriate personnel are authorized to make EFTs.

Finding No. 4: 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 is not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The performance assessments of instructional personnel and the District's only school administrator generally met the requirements of Section 1012.34(3)(a), Florida Statutes (2010). For instructional personnel, performance assessments included student growth and achievement based primarily on student performance from FCAT scores. However, for the school administrator, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of the school administrator may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-137.

Recommendation: The District should document that performance assessments of the school administrator 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. 5: 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 the school-based administrator. 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 the school-based administrator 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 union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. In addition, because the District only had one school-based administrator, the requirements to consider the differentiated pay factors of school-based administrators does not apply. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), for instructional personnel could be improved, as follows:

- 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.
- The salary schedule indicated that salary supplements would be provided for additional responsibilities, school demographics, level of performance difficulties, and critical shortage areas. Instructional personnel identified for these supplements included guidance counselors, exceptional student education teachers, technology support specialists, and others. While District records evidenced consideration for the differentiated pay factors of additional responsibilities, school demographics, and level of job performance difficulties, the basis for identifying the critical shortage areas was not readily apparent. To document the process for identifying critical shortage areas, records could evidence the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining instructional personnel.

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's

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.

compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-137.

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 that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 6: 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. Procedures provided by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

For the 2010-11 fiscal year, the District reported to FDOE 2,262 adult general education contact hours for 12 students in 22 classes. We reviewed District records supporting each adult general education contact hour reported and noted errors for each student and class, resulting in 1,630 total overreported hours. District records further indicated that there were at least 12 other students who attended classes in fall 2010 and spring 2011, but no hours were reported for these students, resulting in at least 236 underreported hours. District personnel indicated that data entry errors, such as inputting incorrect student enrollment and exit dates, caused the overreported hours, and errors in submitting the data to FDOE caused the unreported hours. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. Similar findings were noted in previous audit reports, most recently in our report No. 2011-137.

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

Finding No. 7: Information Technology – Security Incident Response Plan

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 of affected parties.

The District's technology plan provides general guidance to address security incidents, but lacks procedures for detecting, reporting, and responding to such incidents. As of January 2012, the District was in the process of updating its technology plan to include appropriate security incident response procedures. However, 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.

Finding No. 8: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to data loss prevention, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of District 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, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2011-137.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*FRANKLIN 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 |
|---|---|--|----------------------|---|
| 2009-138 (1) | Twenty-First Century Community Learning Centers (CFDA No. 84.287)/ Subrecipient Monitoring and Matching | The District did not properly monitor grant and subgrant supported activities and ensure compliance with matching requirements for the Twenty-First Century program, resulting in questioned costs of \$158,704. | Partially corrected. | The District established procedures to monitor grant and subgrant activities. Final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved. |

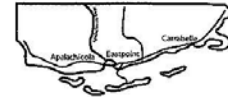
EXHIBIT A
MANAGEMENT'S RESPONSE



Nina M. Marks
Superintendent

Franklin County Schools

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Working Together
Making A Difference

February 28, 2012

Mr. David Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Please note the following pages as Franklin District Schools' response to the Franklin District School Board Preliminary and Tentative Audit Findings submitted to us from the Auditor General's office.

The Franklin District is in appreciation for the vital service your office renders to small school districts such as ours. Though we are always striving to present a fiscally sound program we are still grateful for the astute evaluation offered by your staff.

If I may be of any further service or should follow-up be required please feel free to contact my office.

Sincerely,

Nina M. Marks
Superintendent

Board Meets First Thursday After First Monday in Each Month

George Thompson
District 1

David Hinton
District 2

Teresa Ann Martin
District 3

Jimmy Gander
District 4
Chair

Carlton Whaley
District 5
Vice Chair

An Equal Opportunity Employer

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

02/28/12

In response to the: **FRANKLIN COUNTY DISTRICT SCHOOL BOARD**
 PRELIMINARY AND TENTATIVE AUDIT FINDINGS

SIGNIFICANT DEFICIENCY

Finding No.1: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

Response:
 I agree with this finding.

Corrective Action:
 The Franklin District is ensuring accurate reporting by implementing consistent check and balance between the Accountant and Finance Director with routine and timely review throughout the year.

ADDITIONAL MATTERS

Finding No. 2: Improvements were needed in the bank account reconciliation process.

Response:
 I agree with this finding.

Corrective Action:
 This finding is most likely due to the absence of personnel due to medical hardship. The small size of the Franklin District finance staff precluded anyone from filling the accountant position responsible for bank reconciliations. An employee has been transferred to this position since the beginning of this fiscal year. Reconciliations are being performed on a routine monthly basis, reviewed and verified by the Franklin District Finance Officer as well as journal entries also being entered into the general ledger.

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

Response:
 I agree with this finding.

Corrective Action:
 The Franklin District has secured the appropriate signed bank agreements for all existing accounts. The SBA account to and from which district revenues flow has been updated with appropriate signatures. A new SBA agreement has been drafted restricting the transfer of SBA funds to accounts previously approved by the Franklin District School Board. Policy is being reviewed for relevance to electronic funds transfer security issues in accordance with Section 1010.11, Florida Statutes.

EXHIBIT A

MANAGEMENT’S RESPONSE (CONTINUED)

02/28/12

Finding No. 4: District records did not sufficiently evidence that performance assessments of the school administrator were based primarily on student performance contrary to Section 1012.34(3), Florida Statutes (2010).

Response:

I agree with this finding.

Corrective Action:

The Franklin District continues its efforts since the 2010-11 fiscal year to produce and implement such performance assessment for school administrators. Franklin District personnel from various levels along with community personnel have attended FDOE sponsored workshops for this purpose. It is Franklin District’s goal to have such assessment in place by the beginning of the 2012-13 school year.

Finding No. 5: 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 using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Response:

I agree with this finding.

Corrective Action:

Franklin District is in partnership and participation with the Panhandle Area Educational Consortium in developing performance evaluation assessments and policies. Committees have been established for developing policies and procedures for both instructional staff and school administrators for awarding performance based pay in accordance with Section 1012.22(1)(c)2 and Section 1012.22(1)(c)4., Florida Statutes (2010). Franklin District’s instructional performance evaluation plan has been approved by the state and ready for implementation. Performance based pay will be implemented as committees culminate their work.

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

Response:

I agree with this finding.

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

02/28/12

Corrective Action:

The Franklin District Adult Education Coordinator has reviewed the audit findings and subsequently met with data entry personnel at all levels relating to Adult Education. Of particular focus was the timeliness and appropriateness of adding and removing students. It is stressed that communication must take place between data entry personnel when students are added, removed and/or transferred.

Finding No. 7: The District did not have a written security incident response plan.

Response:

I agree with this finding.

Corrective Action:

The Franklin District has compiled a security incident plan which is being recommended to the Franklin County School Board for approval. It is anticipated the approved and updated security incident plan will be implemented before April 1, 2012.

Finding No. 8: The District’s information technology security controls related to data loss prevention needed improvement.

Response:

I agree with this finding.

Corrective Action:

The Franklin District is drafting a technology security plan. The plan is being compiled by a technology and security team of personnel familiar with the district’s technology. Outside resources are also being consulted for the benefit of objective evaluation.