

**PUTNAM 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>
John D. Milton to 11-15-10, Vice Chair	1
Nichole M. Cummings from 11-16-10	1
Terry Wright, Vice Chair from 11-16-10	2
Lisa Parsons	3
C. L. Overturf, Jr., Chair	4
Joann Barber to 11-15-10	5
Kathy Jorgensen from 11-16-10	5

Thomas D. Townsend, Superintendent

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

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

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

PUTNAM COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	24
Notes to Financial Statements	25
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	48
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	50
Ten-Year Claims Development Information – North East Florida Educational Consortium – Risk Management Property/Casualty Program.....	51
Notes to Required Supplementary Information.....	52
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	53
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	55
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	57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	60
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	78
EXHIBIT A MANAGEMENT'S RESPONSE	79

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

MATERIAL WEAKNESS

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

SIGNIFICANT DEFICIENCY

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

ADDITIONAL MATTERS

Finding No. 3: District records did not always evidence use of ad valorem tax levy proceeds for authorized purposes, resulting in \$908,220 of questioned costs. In addition, the District accumulated \$878,403 of ad valorem tax levy proceeds in the General Fund instead of appropriately accounting for these proceeds by fiscal year tax levy in the Capital Projects – Local Capital Improvement Fund.

Finding No. 4: Controls over electronic funds transfers could be enhanced.

Finding No. 5: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 6: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 7: District records did not evidence the basis upon which salary adjustments and one-time bonuses were determined for 114 District administrative support personnel, ranging in amounts from \$1,500 to \$5,000.

Finding No. 8: The District needed to enhance its controls over additional work assignments and compensation for District employees and develop formal written procedures governing the authorization, review, approval, and compensation for such additional work.

Finding No. 9: 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. 10: The District did not have a written information technology (IT) security incident response plan.

Finding No. 11: The District needed to strengthen IT access controls.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Title I, Part A Cluster; Special Education Cluster; Twenty-First Century Community Learning Centers; Teacher Incentive Fund; 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, except for the Title I, Part A Cluster and Teacher Incentive Fund programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: Certain expenditures for various Federal programs were not always properly approved, documented, and supported, resulting in \$239,685 of questioned costs.

Federal Awards Finding No. 2: Contracting and monitoring controls were not sufficient to ensure that services and charges for the State Fiscal Stabilization Fund were appropriate, resulting in \$40,300 of questioned costs.

Federal Awards Finding No. 3: During the 2008-09 fiscal year, the District transferred \$2,464,721 from the internal service fund to the General Fund without making a determination of the portion that should be credited to Federal programs. Subsequently, District transferred \$998,075 back to the internal service fund; however, as of January 2012, the District still had not made a determination of the portion of the \$1,466,646 that should be credited to Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2011-162.

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.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam County District School Board, as of and for the fiscal year ended June 30, 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 5 percent of the assets and 12 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Children's Reading Center Charter School, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Putnam County District School Board as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, TEN-YEAR CLAIMS DEVELOPMENT INFORMATION - NORTH EAST FLORIDA EDUCATIONAL CONSORTIUM - RISK MANAGEMENT PROPERTY/CASUALTY PROGRAM, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 22, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Putnam County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2011. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 11 through 46.

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$458,920.28, which represents a 0.5 percent increase over the 2009-10 fiscal year.
- General revenues total \$110,736,369.33, or 79.8 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$28,062,952.46, or 20.2 percent of all revenues.
- Expenses total \$138,340,401.51. Only \$28,062,952.46 of these expenses was offset by program specific revenues. Total revenues exceeded total expenses by \$458,920.28.
- The fund balance of the General Fund totals \$11,743,352.48 at June 30, 2011, or 15.7 percent of total General Fund revenues. The fund balance includes \$634,436.17 of nonspendable funds, \$1,574,862.56 of restricted funds, \$1,678,218.41 of assigned funds, and \$7,855,835.34 of unassigned funds. The total assigned and unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, was \$9,534,053.75, or 12.8 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District is the fiscal agent for NEFEC, which provides various programs and services to 15 members including the school districts of Baker, Bradford, Columbia, Dixie, Flagler, Gilchrist, Hamilton, Lafayette, Levy, Nassau, Putnam, Suwannee, and Union counties as well as the P. K. Yonge Developmental Research School and the Florida School for the Deaf and the Blind. NEFEC charges fees to cover the cost of certain services it provides.
- Component unit – The District presents one separate legal entity in this report, The Children's Reading Center Charter School. Although a legally separate organization, the charter school is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

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

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

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

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses the enterprise funds to account for NEFEC programs, including the Risk Management (Property/Casualty) and Federal Economic Stimulus, as well as other programs and services.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses such a fund to account for the Putnam County District School Board Health Insurance Program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has been included within governmental activities in the government-wide financial statements.

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Assets, End of Year

	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Current and Other Assets	\$ 21,438,120.52	\$ 19,362,797.17	\$ 43,224,486.50	\$ 43,481,675.84	\$ 64,662,607.02	\$ 62,844,473.01
Capital Assets	53,684,197.19	56,670,137.07	3,004,925.40	2,937,574.72	56,689,122.59	59,607,711.79
Total Assets	75,122,317.71	76,032,934.24	46,229,411.90	46,419,250.56	121,351,729.61	122,452,184.80
Other Liabilities	2,943,615.34	2,429,706.13	1,467,146.26	1,811,770.22	4,410,761.60	4,241,476.35
Long-Term Liabilities	17,599,113.14	17,472,134.81	9,760,371.55	11,616,010.60	27,359,484.69	29,088,145.41
Total Liabilities	20,542,728.48	19,901,840.94	11,227,517.81	13,427,780.82	31,770,246.29	33,329,621.76
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	51,070,318.44	53,380,066.92	3,004,925.40	2,937,574.72	54,075,243.84	56,317,641.64
Restricted	8,456,686.49	8,869,976.30	25,743,507.91	23,243,426.03	34,200,194.40	32,113,402.33
Unrestricted (Deficit)	(4,947,412.70)	(6,118,949.92)	6,253,460.78	6,810,468.99	1,306,048.08	691,519.07
Total Net Assets	\$ 54,579,592.23	\$ 56,131,093.30	\$ 35,001,894.09	\$ 32,991,469.74	\$ 89,581,486.32	\$ 89,122,563.04

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

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

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

	Operating Results for the Fiscal Year Ended					
	Governmental Activities		Business-Type Activities		Total	
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Program Revenues:						
Charges for Services	\$ 961,365.44	\$ 1,039,012.13	\$ 20,721,894.17	\$ 25,603,789.61	\$ 21,683,259.61	\$ 26,642,801.74
Operating Grants and Contributions	5,601,372.62	8,114,839.41			5,601,372.62	8,114,839.41
Capital Grants and Contributions	778,320.23	1,257,844.82			778,320.23	1,257,844.82
General Revenues:						
Property Taxes, Levied for Operational Purposes	24,699,379.99	25,801,757.91			24,699,379.99	25,801,757.91
Property Taxes, Levied for Capital Projects	5,823,633.33	6,131,689.54			5,823,633.33	6,131,689.54
Grants and Contributions Not Restricted to Specific Programs	70,183,374.49	64,722,394.46	8,395,959.87	6,689,908.02	78,579,334.36	71,412,302.48
Unrestricted Investment Earnings	54,797.85	256,767.84	234,764.49	396,962.28	289,562.34	653,730.12
Miscellaneous	1,344,459.31	1,615,800.81			1,344,459.31	1,615,800.81
Total Revenues	109,446,703.26	108,940,106.92	29,352,618.53	32,690,659.91	138,799,321.79	141,630,766.83
Functions/Program Expenses:						
Instruction	56,853,233.96	56,247,838.16			56,853,233.96	56,247,838.16
Pupil Personnel Services	4,564,880.74	4,608,536.42			4,564,880.74	4,608,536.42
Instructional Media Services	2,861,741.22	3,041,458.43			2,861,741.22	3,041,458.43
Instruction and Curriculum Development Services	4,117,933.99	4,190,181.47			4,117,933.99	4,190,181.47
Instructional Staff Training Services	2,722,358.07	2,082,453.40			2,722,358.07	2,082,453.40
Instruction Related Technology	41,281.83				41,281.83	
School Board	535,841.29	559,616.54			535,841.29	559,616.54
General Administration	1,901,786.37	1,870,803.70			1,901,786.37	1,870,803.70
School Administration	6,171,666.79	6,415,178.09			6,171,666.79	6,415,178.09
Facilities Acquisition and Construction	606,005.66	14,502.20			606,005.66	14,502.20
Fiscal Services	780,339.95	751,093.19			780,339.95	751,093.19
Food Services	6,114,575.90	6,245,806.77			6,114,575.90	6,245,806.77
Central Services	1,016,195.13	1,055,973.43			1,016,195.13	1,055,973.43
Pupil Transportation Services	5,821,387.89	5,806,747.79			5,821,387.89	5,806,747.79
Operation of Plant	7,157,582.09	7,578,016.15			7,157,582.09	7,578,016.15
Maintenance of Plant	3,326,891.13	3,465,665.69			3,326,891.13	3,465,665.69
Administrative Technology Services	526,825.03	442,109.01			526,825.03	442,109.01
Community Services	205,029.28	71,768.19			205,029.28	71,768.19
Unallocated Interest on Long-Term Debt	135,053.45	150,270.65			135,053.45	150,270.65
Unallocated Depreciation Expense	5,537,597.56	5,172,673.72			5,537,597.56	5,172,673.72
NEFEC Employee Benefits Program			81,639.20	84,274.65	81,639.20	84,274.65
NEFEC Risk Management Program			12,159,337.52	13,202,268.31	12,159,337.52	13,202,268.31
NEFEC Federal Economic Stimulus Fund			1,890,595.79	983,677.49	1,890,595.79	983,677.49
NEFEC Other Programs			13,210,621.67	14,518,215.88	13,210,621.67	14,518,215.88
Total Functions/Program Expenses	110,998,207.33	109,770,693.00	27,342,194.18	28,788,436.33	138,340,401.51	138,559,129.33
Increase (Decrease) in Net Assets	\$ (1,551,504.07)	\$ (830,586.08)	\$ 2,010,424.35	\$ 3,902,223.58	\$ 458,920.28	\$ 3,071,637.50

For governmental-type activities, the largest revenue source is the State of Florida. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Although FEFP funding continued to decrease due to declining enrollment, additional funding was received from Federal economic stimulus funds, resulting in the increase in grants and contracts not restricted to specific programs. The District had a large reduction in program revenues – operating grants and contributions for the 2010-11 fiscal year,

resulting mainly from student transportation funding being reclassified from program revenue to general revenue and included as part of FEFP.

Property tax revenues decreased by \$1,410,434.13, or 4.4 percent, as a result of a decrease in taxable assessed values.

Instructional staff training services expenses increased \$639,904.67 due, in part, to increases in the number of personnel employed and in contracted services for staff training activities. Facilities acquisition and construction expenses increased \$591,503.46 due to an increase in noncapitalized furniture, fixtures, and equipment and computer software expenses.

For the business-type activities, charges for services decreased \$4,881,895.44 due mainly to the recognition of nonrecurring revenue for the lease of enterprise resource software to member districts in the 2009-10 fiscal year. Additionally, grants and contributions not restricted to specific programs increased \$1,706,051.85 mainly because of increased Federal and State grants. NEFEC Risk Management Program expenses decreased \$1,042,930.79 due mainly to a decrease in estimated insurance claims payable; NEFEC Federal Economic Stimulus Fund expenses increased \$906,918.30, due mainly to an increase in Federal economic stimulus grants available for expenses; and NEFEC Other Programs expenses decreased \$1,307,594.21, due mainly to a decrease in employee benefits expenses for compensated absences and other postemployment benefits.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$7,855,835.34, while the total fund balance is \$11,743,352.48. The total fund balance increased by \$2,561,276.86 during the fiscal year. The key factor in this increase was the receipt of one-time appropriations under Federal economic stimulus programs, which are intended to help stabilize State and local government budgets in order to minimize and avoid reductions in education and other essential public services. Depending on the program, these funds are generally available for only one or two years. During the 2010-11 fiscal year, the District received a one-time appropriation under the Education Jobs Act, which was enacted on August 10, 2010. The intent of these funds is to help school districts pay salaries and benefits of teachers, school administrators, and other essential school-based staff. The District shifted some General Fund costs to the various Federal stimulus programs, thereby increasing the General Fund's fund balance.

The Florida Department of Education (FDOE) requires school districts to report the Special Revenue – Federal Economic Stimulus Fund as a major fund to account for certain Federal grant program resources related to Federal economic stimulus programs. During the 2010-11 fiscal year, this fund reported revenues and expenditures of \$8,710,642.31 each, and the funding was mainly used for instruction-related salaries and benefits. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Special Revenue – Other Fund accounts for Federal grants administered through the FDOE and United States Department of Education cash advance systems. For the 2010-11 fiscal year, this fund reported revenues and expenditures of \$12,634,656.04 each, an increase of \$1,638,324.42 each, or 14.9 percent, over the 2009-10 fiscal year, primarily for a new Teacher Incentive Fund grant and increased funding of Title I and Twenty-First Century Community Learning Centers programs. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

Proprietary Funds

The Enterprise Funds have combined net assets of \$35,001,894.09, representing an increase of \$2,010,424.35 in net assets during the current fiscal year. The main causes for the increase are:

- NEFEC Risk Management Program net assets increased by \$2,497,411.08 over the 2009-10 fiscal year. The increase is primarily attributable to a decrease in claims expense. Premiums charged are based on estimates to cover program expenses and to maintain adequate reserves.
- NEFEC Federal Economic Stimulus Fund is also subject to the above-described reporting and accounting requirements that apply to the Special Revenue – Federal Economic Stimulus Fund. During the 2010-11 fiscal year, the NEFEC Federal Economic Stimulus Fund reported revenues and expenses of \$1,890,595.79 each, and funding was used mainly for salaries, benefits, and contracted services. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate fund balances.
- NEFEC Other Programs Fund net assets decreased by \$486,775.83 from the 2009-10 fiscal year. The decrease is primarily attributable to a decrease in other operating revenues, consisting of capital lease revenues.
- The internal service fund's reported revenues and expenses pertain to the District's health insurance program, and the fund's financial position did not significantly change from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2010-11 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$719,944.98, or 1 percent. At the same time, final appropriations were more than the original budgeted amounts by \$3,062,196.78, or 3.8 percent. Budget revisions were due primarily to changes in estimated State funding and estimated instruction expenditures.

Actual revenues are in line with the final budgeted amounts, while actual expenditures are \$8,037,782.39, or 9.5 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures, such as paying for instructional positions using Federal Economic Stimulus moneys, implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$8,202,615.39.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2011, was \$56,689,122.59. This includes land; construction in progress, improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; and computer software.

Additional information on the District's capital assets can be found in Notes 5 and 14 to the financial statements.

Long-Term Debt

At June 30, 2011, the District has outstanding bonds payable of \$2,480,000 and a capital lease of \$133,878.75. During the current fiscal year, bond principal totaling \$300,000 was retired and capital lease payments totaled \$376,191.40.

OTHER MATTERS OF SIGNIFICANCE

The District's economic condition is closely tied to that of the State of Florida, which is facing uncertain economic times. The State of Florida provides approximately 65 percent of total General Fund Revenues and, therefore, uncertainty at the State level directly affects the District. In addition, the erosion of property values has affected local funding. For the 2010-11 fiscal year, the District received appropriations under the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Fund (EJF). The intent of these funds at the District level was to stabilize budgets and maintain jobs. These appropriations have ended, while continued shortfalls in State tax revenues and lower property values are anticipated until the economy improves. Considering this environment, District staff is working closely with the Board to develop cost savings measures to offset the loss of nonrecurring ARRA and EJF revenues. The Board must continue to be vigilant in monitoring its resources to meet the demands of our public education system.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 15,973,648.50	\$ 40,964,712.50	\$ 56,938,361.00	\$ 307,826.00
Cash and Cash Equivalents with Fiscal Agent		100,000.00	100,000.00	
Investments	108,646.76		108,646.76	
Accounts Receivable				18,812.00
Internal Balances	36,121.25	(36,121.25)		
Due from Other Agencies	4,547,516.60	667,513.81	5,215,030.41	
Lease Payments Receivable		416,364.25	416,364.25	
Due from Excess Insurer		407,025.12	407,025.12	
Prepaid Items				133,815.00
Inventories	772,187.41		772,187.41	
Investments - Noncurrent		704,992.07	704,992.07	
Capital Assets:				
Nondepreciable Capital Assets	2,056,408.30	45,000.00	2,101,408.30	
Depreciable Capital Assets, Net	51,627,788.89	2,959,925.40	54,587,714.29	138,194.00
TOTAL ASSETS	\$ 75,122,317.71	\$ 46,229,411.90	\$ 121,351,729.61	\$ 598,647.00
LIABILITIES				
Salaries and Benefits Payable	\$ 1,049,003.18	\$ 68,238.92	\$ 1,117,242.10	\$
Accounts Payable	944,775.26	860,725.57	1,805,500.83	12,969.00
Construction Contracts Payable - Retainage	28,851.90		28,851.90	
Due to Other Agencies		517,190.10	517,190.10	
Deferred Revenue	920,985.00	20,991.67	941,976.67	
Long-Term Liabilities:				
Portion Due Within One Year	2,149,426.12	3,109,865.03	5,259,291.15	
Portion Due After One Year	15,449,687.02	6,650,506.52	22,100,193.54	
Total Liabilities	20,542,728.48	11,227,517.81	31,770,246.29	12,969.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	51,070,318.44	3,004,925.40	54,075,243.84	138,194.00
Restricted for:				
State Required Carryover Programs	696,460.06		696,460.06	
Debt Service	545,048.13		545,048.13	
Capital Projects	5,640,044.22		5,640,044.22	
Food Service	1,443,876.91		1,443,876.91	
Risk Management Programs		25,743,507.91	25,743,507.91	
Permanent Funds - Expendable	6,740.92		6,740.92	
Permanent Funds - Nonexpendable	124,513.25		124,513.25	
Unrestricted (Deficit)	(4,947,412.70)	6,253,460.78	1,306,048.08	447,484.00
Total Net Assets	54,579,589.23	35,001,894.09	89,581,483.32	585,678.00
TOTAL LIABILITIES AND NET ASSETS	\$ 75,122,317.71	\$ 46,229,411.90	\$ 121,351,729.61	\$ 598,647.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 56,853,233.96	\$ 190,150.80	\$	\$
Pupil Personnel Services	4,564,880.74			
Instructional Media Services	2,861,741.22			
Instruction and Curriculum Development Services	4,117,933.99			
Instructional Staff Training Services	2,722,358.07			
Instruction Related Technology	41,281.83			
School Board	535,841.29			
General Administration	1,901,786.37			
School Administration	6,171,666.79			
Facilities Acquisition and Construction	606,005.66			351,093.39
Fiscal Services	780,339.95			
Food Services	6,114,575.90	771,214.64	5,601,372.62	
Central Services	1,016,195.13			
Pupil Transportation Services	5,821,387.89			
Operation of Plant	7,157,582.09			
Maintenance of Plant	3,326,891.13			
Administrative Technology Services	526,825.03			
Community Services	205,029.28			
Unallocated Interest on Long-Term Debt	135,053.45			427,226.84
Unallocated Depreciation Expense*	5,537,597.56			
Total Governmental Activities	110,998,207.33	961,365.44	5,601,372.62	778,320.23
Business-Type Activities:				
NEFEC Risk Management (Property/Casualty) Program	12,159,337.52	14,488,538.64		
NEFEC Federal Economic Stimulus	1,890,595.79			
NEFEC Other Programs	13,210,621.67	6,153,919.13		
NEFEC Employee Benefits Program	81,639.20	79,436.40		
Total Business-Type Activities	27,342,194.18	20,721,894.17		
Total Primary Government	\$ 138,340,401.51	\$ 21,683,259.61	\$ 5,601,372.62	\$ 778,320.23
Component Unit				
The Children's Reading Center Charter School	\$ 1,385,776.00	\$ 0.00	\$ 0.00	\$ 73,492.00

General Revenues:

Taxes:

- Property Taxes, Levied for Operational Purposes
- Property Taxes, Levied for Capital Projects
- Grants and Contributions Not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (56,663,083.16)	\$	\$ (56,663,083.16)	\$
(4,564,880.74)		(4,564,880.74)	
(2,861,741.22)		(2,861,741.22)	
(4,117,933.99)		(4,117,933.99)	
(2,722,358.07)		(2,722,358.07)	
(41,281.83)		(41,281.83)	
(535,841.29)		(535,841.29)	
(1,901,786.37)		(1,901,786.37)	
(6,171,666.79)		(6,171,666.79)	
(254,912.27)		(254,912.27)	
(780,339.95)		(780,339.95)	
258,011.36		258,011.36	
(1,016,195.13)		(1,016,195.13)	
(5,821,387.89)		(5,821,387.89)	
(7,157,582.09)		(7,157,582.09)	
(3,326,891.13)		(3,326,891.13)	
(526,825.03)		(526,825.03)	
(205,029.28)		(205,029.28)	
292,173.39		292,173.39	
(5,537,597.56)		(5,537,597.56)	
(103,657,149.04)		(103,657,149.04)	
	2,329,201.12	2,329,201.12	
	(1,890,595.79)	(1,890,595.79)	
	(7,056,702.54)	(7,056,702.54)	
	(2,202.80)	(2,202.80)	
	(6,620,300.01)	(6,620,300.01)	
(103,657,149.04)	(6,620,300.01)	(110,277,449.05)	
			(1,312,284.00)
24,699,379.99		24,699,379.99	
5,823,633.33		5,823,633.33	
70,183,374.49	8,395,959.87	78,579,334.36	1,295,858.00
54,797.85	234,764.49	289,562.34	3,168.00
1,344,459.31		1,344,459.31	12,926.00
102,105,644.97	8,630,724.36	110,736,369.33	1,311,952.00
(1,551,504.07)	2,010,424.35	458,920.28	(332.00)
56,131,093.30	32,991,469.74	89,122,563.04	586,010.00
\$ 54,579,589.23	\$ 35,001,894.09	\$ 89,581,483.32	\$ 585,678.00

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Fund
ASSETS			
Cash and Cash Equivalents	\$ 8,361,253.55	\$ 925,972.61	\$ 740,905.96
Investments	2,599.49		
Due from Other Funds	3,779,783.85		
Due from Other Agencies	756,565.12	1,307,326.82	1,009,522.41
Inventories	634,436.17		
TOTAL ASSETS	\$ 13,534,638.18	\$ 2,233,299.43	\$ 1,750,428.37
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 775,523.52	\$ 119,678.87	\$ 132,501.11
Accounts Payable	680,762.18	33,002.57	88,761.40
Construction Contracts Payable - Retainage			
Due to Other Funds	335,000.00	2,080,617.99	1,529,165.86
Deferred Revenue			
Total Liabilities	1,791,285.70	2,233,299.43	1,750,428.37
Fund Balances:			
Nonspendable:			
Inventories	634,436.17		
Permanent Fund Principal			
Total Nonspendable Fund Balance	634,436.17		
Restricted for:			
State Required Carryover Programs	696,460.06		
Debt Service			
Capital Projects	878,402.50		
Food Service			
Permanent Funds			
Total Restricted Fund Balance	1,574,862.56		
Assigned to:			
Employee Group Insurance	929,037.26		
Textbooks	575,569.02		
Equipment and Supplies	85,644.20		
Repairs and Maintenance	82,293.88		
Other Purposes	5,674.05		
Total Assigned Fund Balance	1,678,218.41		
Unassigned Fund Balance	7,855,835.34		
Total Fund Balances	11,743,352.48		
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,534,638.18	\$ 2,233,299.43	\$ 1,750,428.37

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 3,634,352.80	\$ 13,662,484.92
97,401.94	100,001.43
2,892,791.69	6,672,575.54
1,413,157.52	4,486,571.87
<u>137,751.24</u>	<u>772,187.41</u>
<u>\$ 8,175,455.19</u>	<u>\$ 25,693,821.17</u>
\$ 18,119.90	\$ 1,045,823.40
137,380.81	939,906.96
28,851.90	28,851.90
188,296.65	4,133,080.50
<u>920,985.00</u>	<u>920,985.00</u>
<u>1,293,634.26</u>	<u>7,068,647.76</u>
137,751.24	772,187.41
<u>124,513.25</u>	<u>124,513.25</u>
<u>262,264.49</u>	<u>896,700.66</u>
	696,460.06
545,048.13	545,048.13
4,761,641.72	5,640,044.22
1,306,125.67	1,306,125.67
<u>6,740.92</u>	<u>6,740.92</u>
<u>6,619,556.44</u>	<u>8,194,419.00</u>
	929,037.26
	575,569.02
	85,644.20
	82,293.88
	<u>5,674.05</u>
	<u>1,678,218.41</u>
	<u>7,855,835.34</u>
<u>6,881,820.93</u>	<u>18,625,173.41</u>
<u>\$ 8,175,455.19</u>	<u>\$ 25,693,821.17</u>

**PUTNAM 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		\$ 18,625,173.41
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.		53,684,197.19
Internal balances, representing capital lease payables, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(133,878.75)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		3,210.52
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	\$ (2,480,000.00)	
Other Postemployment Benefits Payable	(5,996,982.55)	
Compensated Absences Payable	(9,122,130.59)	(17,599,113.14)
Total Net Assets - Governmental Activities		<u>\$ 54,579,589.23</u>

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 275,038.78	\$ 8,710,642.31	\$ 529,664.07
Federal Through State and Local State	526,998.48		12,104,991.97
	48,069,369.07		
Local:			
Property Taxes	24,699,379.99		
Charges for Services - Food Service			
Miscellaneous	1,197,111.47		
Total Revenues	74,767,897.79	8,710,642.31	12,634,656.04
Expenditures			
Current - Education:			
Instruction	44,963,799.09	4,869,804.58	6,745,202.13
Pupil Personnel Services	3,226,868.19	513,599.47	802,186.50
Instructional Media Services	2,371,322.80	285,940.77	193,576.15
Instruction and Curriculum Development Services	1,755,298.90	212,740.21	2,130,056.44
Instructional Staff Training Services	415,382.05	532,041.84	1,762,607.37
Instruction Related Technology		41,166.73	
School Board	534,493.23		
General Administration	813,023.12	358,676.76	433,737.69
School Administration	4,951,604.86	1,188,451.00	850.00
Facilities Acquisition and Construction	7,952.07		300.00
Fiscal Services	734,733.66		
Food Services	62,315.43		
Central Services	1,015,800.09		
Pupil Transportation Services	4,789,809.97	108,186.97	250,862.29
Operation of Plant	6,935,224.96	202,315.02	3,115.71
Maintenance of Plant	3,310,106.38		
Administrative Technology Services	487,374.20	28,935.00	
Community Services		180,471.65	22,011.00
Fixed Capital Outlay:			
Facilities Acquisition and Construction	175.11		
Other Capital Outlay	195,771.81	188,312.31	290,150.76
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	76,571,055.92	8,710,642.31	12,634,656.04
Excess (Deficiency) of Revenues Over Expenditures	(1,803,158.13)		
Other Financing Sources (Uses)			
Transfers In	4,662,936.00		
Insurance Loss Recoveries	36,498.99		
Transfers Out	(335,000.00)		
Total Other Financing Sources (Uses)	4,364,434.99		
Net Change in Fund Balances	2,561,276.86		
Fund Balances, Beginning	9,182,075.62		
Fund Balances, Ending	\$ 11,743,352.48	\$ 0.00	\$ 0.00

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

Other Governmental Funds	Total Governmental Funds
\$	\$
5,350,169.06	804,702.85
996,193.60	26,692,801.82
	49,065,562.67
5,823,633.33	30,523,013.32
771,214.64	771,214.64
350,993.81	1,548,105.28
13,292,204.44	109,405,400.58
20,747.45	56,599,553.25
	4,542,654.16
	2,850,839.72
	4,098,095.55
	2,710,031.26
	41,166.73
	534,493.23
	1,605,437.57
	6,140,905.86
597,753.59	606,005.66
	734,733.66
6,034,960.60	6,097,276.03
	1,015,800.09
	5,148,859.23
	7,140,655.69
	3,310,106.38
	516,309.20
	202,482.65
2,478,304.53	2,478,479.64
65,522.06	739,756.94
676,191.40	676,191.40
135,053.45	135,053.45
10,008,533.08	107,924,887.35
3,283,671.36	1,480,513.23
	4,662,936.00
	36,498.99
(4,662,936.00)	(4,997,936.00)
(4,662,936.00)	(298,501.01)
(1,379,264.64)	1,182,012.22
8,261,085.57	17,443,161.19
\$ 6,881,820.93	\$ 18,625,173.41

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011**

Net Change in Fund Balances - Governmental Funds \$ 1,182,012.22

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

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

Fixed Capital Outlay - Facilities Acquisition and Construction	\$ 2,478,479.64	
Fixed Capital Outlay - Other Capital Outlay	739,756.94	
Depreciation Expense	<u>(6,204,176.46)</u>	(2,985,939.88)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details the amount of long-term debt principal that was repaid during the year:

Capital Lease Payments (Internal Balances)	\$ 376,191.40	
Bond Payments	<u>300,000.00</u>	676,191.40

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 1,502,873.41

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (1,929,851.74)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service fund is reported with governmental activities. 3,210.52

Change in Net Assets - Governmental Activities \$ (1,551,504.07)

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2011**

	Business-Type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 32,383,855.67		\$ 7,650,350.58	\$ 930,506.25	\$ 40,964,712.50	\$ 2,311,163.58
Cash with Fiscal Agent	100,000.00				100,000.00	
Due From Other Funds	587,710.20				587,710.20	335,000.00
Due From Other Agencies	5,017.67		662,496.14		667,513.81	60,944.73
Lease Payments Receivable			550,243.00		550,243.00	
Due From Excess Insurer	407,025.12				407,025.12	
Total Current Assets	33,483,608.66		8,863,089.72	930,506.25	43,277,204.63	2,707,108.31
Noncurrent Assets:						
Investments	504,650.99		190,251.08	10,090.00	704,992.07	8,645.33
Nondepreciable Capital Assets			45,000.00		45,000.00	
Depreciable Capital Assets, Net	8,230.79		2,950,394.69	1,299.92	2,959,925.40	
Total Noncurrent Assets	512,881.78		3,185,645.77	11,389.92	3,709,917.47	8,645.33
TOTAL ASSETS	\$ 33,996,490.44	\$ 0.00	\$ 12,048,735.49	\$ 941,896.17	\$ 46,987,122.10	\$ 2,715,753.64
LIABILITIES						
Current Liabilities:						
Salaries and Benefits Payable	\$ 2,614.25	\$	\$ 64,438.30	\$ 1,186.37	\$ 68,238.92	\$ 3,179.78
Accounts Payable	18,060.81		828,664.76	14,000.00	860,725.57	4,868.30
Due to Other Funds			757,710.20		757,710.20	2,704,495.04
Due to Other Agencies				517,190.10	517,190.10	
Deferred Revenue			20,991.67		20,991.67	
Compensated Absences Payable	14,550.80		171,095.92	4,218.31	189,865.03	
Estimated Insurance Claims Payable	2,920,000.00				2,920,000.00	
Total Current Liabilities	2,955,225.86		1,842,900.85	536,594.78	5,334,721.49	2,712,543.12
Noncurrent Liabilities:						
Compensated Absences Payable	58,203.19		684,383.66	16,873.22	759,460.07	
Estimated Insurance Claims Payable	5,596,000.00				5,596,000.00	
Other Postemployment Benefits Payable	17,306.98		272,595.51	5,143.96	295,046.45	
Total Noncurrent Liabilities	5,671,510.17		956,979.17	22,017.18	6,650,506.52	
Total Liabilities	8,626,736.03		2,799,880.02	558,611.96	11,985,228.01	2,712,543.12
NET ASSETS						
Invested in Capital Assets	8,230.79		2,995,394.69	1,299.92	3,004,925.40	
Unrestricted	25,361,523.62		6,253,460.78	381,984.29	31,996,968.69	3,210.52
Total Net Assets	25,369,754.41		9,248,855.47	383,284.21	35,001,894.09	3,210.52
TOTAL LIABILITIES AND NET ASSETS	\$ 33,996,490.44	\$ 0.00	\$ 12,048,735.49	\$ 941,896.17	\$ 46,987,122.10	\$ 2,715,753.64

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

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

	Business-Type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)		
OPERATING REVENUES						
Charges for Services	\$ 293,680.55		\$ 5,054,418.13	\$ 66,956.40	\$ 5,415,055.08	\$
Charges for Sales			237,921.35		237,921.35	
Premium Revenues	14,194,858.09			12,480.00	14,207,338.09	9,200,014.09
Other Operating Revenues			861,579.65		861,579.65	
Total Operating Revenues	14,488,538.64		6,153,919.13	79,436.40	20,721,894.17	9,200,014.09
OPERATING EXPENSES						
Salaries	183,366.53	529,299.02	4,250,889.16	54,499.96	5,018,054.67	34,884.05
Employee Benefits	45,635.52	143,173.96	873,881.39	18,195.90	1,080,886.77	13,446.61
Purchased Services	375,043.65	1,173,595.61	6,233,833.71	6,880.70	7,789,353.67	9,445,245.13
Energy Services			56,410.58		56,410.58	
Materials and Supplies	2,486.68	17,816.26	369,878.22	762.72	390,943.88	
Capital Outlay	5,578.72	4,737.30	464,538.25		474,854.27	
Insurance Claims	3,351,251.00				3,351,251.00	
Excess Insurance Premiums	6,676,729.21				6,676,729.21	
Policyholder Dividends	1,384,998.22				1,384,998.22	
Other Expenses	132,666.21	21,973.64	240,474.91		395,114.76	43,031.47
Depreciation	1,581.78		720,715.45	1,299.92	723,597.15	
Total Operating Expenses	12,159,337.52	1,890,595.79	13,210,621.67	81,639.20	27,342,194.18	9,536,607.26
Operating Income (Loss)	2,329,201.12	(1,890,595.79)	(7,056,702.54)	(2,202.80)	(6,620,300.01)	(336,593.17)
NONOPERATING REVENUES						
Interest	168,209.96		64,562.63	1,991.90	234,764.49	4,803.69
Federal Grants		1,890,595.79	4,598,740.81		6,489,336.60	
State Grants			1,906,623.27		1,906,623.27	
Total Nonoperating Revenues	168,209.96	1,890,595.79	6,569,926.71	1,991.90	8,630,724.36	4,803.69
Income (Loss) Before Transfers	2,497,411.08		(486,775.83)	(210.90)	2,010,424.35	(331,789.48)
Transfers In						335,000.00
Change in Net Assets	2,497,411.08		(486,775.83)	(210.90)	2,010,424.35	3,210.52
Total Net Assets - Beginning	22,872,343.33		9,735,631.30	383,495.11	32,991,469.74	
Total Net Assets - Ending	\$ 25,369,754.41	\$ 0.00	\$ 9,248,855.47	\$ 383,284.21	\$ 35,001,894.09	\$ 3,210.52

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

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

	Business-Type Activities - Enterprise Funds				Total	Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash Received from Board Funds and Participants	\$ 14,488,538.64	\$	\$	\$ 79,436.40	\$ 14,567,975.04	\$ 9,200,014.09
Cash Payments to Suppliers for Goods and Services	(7,192,476.40)	(1,218,122.81)	(7,275,209.04)	(8,458.26)	(15,694,266.51)	(9,487,296.49)
Cash Payments to Employees for Services	(231,621.95)	(672,472.98)	(5,508,347.14)	(70,911.44)	(6,483,353.51)	(45,743.26)
Cash Payments for Insurance Claims	(4,822,251.00)				(4,822,251.00)	
Cash Payments for Policyholder Dividends	(1,384,998.22)				(1,384,998.22)	
Cash Received for Other Operating Activities			8,432,968.24		8,432,968.24	2,638,704.25
Cash Payments for Other Operating Activities	(374,140.76)	(37,931.42)		(347,123.49)	(759,195.67)	
Net Cash Provided (Used) by Operating Activities	483,050.31	(1,928,527.21)	(4,350,587.94)	(347,056.79)	(6,143,121.63)	2,305,678.59
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash Received from Federal and State Grants		1,928,527.21	6,708,070.73		8,636,597.94	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of Capital Assets			(790,947.83)		(790,947.83)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of Investments	169,268.68		63,814.49	2,346.65	235,429.82	681.30
Interest	38,738.03		15,751.99	438.33	54,928.35	4,803.69
Net Cash Provided by Investing Activities	208,006.71		79,566.48	2,784.98	290,358.17	5,484.99
Net Increase (Decrease) in Cash and Cash Equivalents	691,057.02		1,646,101.44	(344,271.81)	1,992,886.65	2,311,163.58
Cash and Cash Equivalents, Beginning	31,792,798.65		6,004,249.14	1,274,778.06	39,071,825.85	
Cash and Cash Equivalents, Ending	\$ 32,483,855.67	\$ 0.00	\$ 7,650,350.58	\$ 930,506.25	\$ 41,064,712.50	\$ 2,311,163.58
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating Income (Loss)	\$ 2,329,201.12	\$ (1,890,595.79)	\$ (7,056,702.54)	\$ (2,202.80)	\$ (6,620,300.01)	\$ (336,593.17)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation	1,581.78		720,715.45	1,299.92	723,597.15	
Changes in Assets and Liabilities:						
(Increase) Decrease in Due from Other Funds	(587,710.20)		37,931.42		(549,778.78)	
(Increase) Decrease in Due from Other Agencies	(4,497.67)			162.80	(4,334.87)	(60,637.72)
Decrease in Leases Receivable			1,570,112.00		1,570,112.00	
Decrease in Due from Excess Insurers	218,067.11				218,067.11	
Increase (Decrease) in Salaries and Benefits Payable	15.64		254.46	(43.12)	226.98	2,587.40
Increase (Decrease) in Accounts Payable	28.07		89,926.63	(814.84)	89,139.86	980.11
Increase (Decrease) in Due to Other Funds		(37,931.42)	757,710.20		719,778.78	2,699,341.97
Decrease in Due to Other Agencies				(347,286.29)	(347,286.29)	
Decrease in Deferred Revenue			(86,704.51)		(86,704.51)	
Decrease in Estimated Insurance Claims Payable	(1,471,000.00)				(1,471,000.00)	
Increase (Decrease) in Compensated Absences Payable	1,225.10		(101,244.66)	2,403.25	(97,616.31)	
Decrease in Other Postemployment Benefits Payable	(3,860.64)		(282,586.39)	(575.71)	(287,022.74)	
Total Adjustments	(1,846,150.81)	(37,931.42)	2,706,114.60	(344,853.99)	477,178.38	2,642,271.76
Net Cash Provided (Used) by Operating Activities	\$ 483,050.31	\$ (1,928,527.21)	\$ (4,350,587.94)	\$ (347,056.79)	\$ (6,143,121.63)	\$ 2,305,678.59
Cash and Cash Equivalents						
Cash and Cash Equivalents	\$ 32,383,855.67	\$	\$ 7,650,350.58	\$ 930,506.25	\$ 40,964,712.50	\$ 2,311,163.58
Cash with Fiscal Agent	100,000.00				100,000.00	
Cash and Cash Equivalents, End of Year	\$ 32,483,855.67	\$ 0.00	\$ 7,650,350.58	\$ 930,506.25	\$ 41,064,712.50	\$ 2,311,163.58
Noncash Investing, Capital, and Financing Activities						
Change in Fair Value of Investments	\$ 129,471.93	\$ 0.00	\$ 48,810.64	\$ 1,553.57	\$ 179,836.14	\$ 681.30

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 643,555.00
Investments	<u>3,740.00</u>
TOTAL ASSETS	<u>\$ 647,295.00</u>
LIABILITIES	
Accounts Payable	\$ 1,294.00
Internal Accounts Payable	<u>646,001.00</u>
TOTAL LIABILITIES	<u>\$ 647,295.00</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Putnam 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 Putnam 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 Putnam County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, The Children's Reading Center Charter School is included within the District School Board's reporting entity.

The Children's Reading Center Charter School (Charter School) is presented as a discretely presented component unit in the component unit columns in the government-wide financial statements. The general operating authority of the Charter School is contained in Section 1002.33, Florida Statutes. The Charter School is owned by The Children's Reading Center, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The Charter School operates under a charter established pursuant to a contract between The Children's Reading Center, Inc., and the Putnam County District School Board, its sponsor. The current charter is effective until June 30, 2015; at the end of that term, the District may choose not to renew under grounds specified in the charter. During the term of the charter, the District may terminate the charter if good cause is shown. The Charter School is considered a component unit of the District because it is fiscally dependent on the District to levy taxes for its support. The financial data reported in the accompanying financial statements was derived from the audit report of the Charter School for the fiscal year ended June 30, 2011, which is available at the District's administrative offices.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component unit. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major enterprise funds:

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

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

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 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 proprietary funds and fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. 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 Charter School, shown as a discretely presented component unit, is accounted for as a not-for-profit organization and uses the not-for-profit accounting model.

➤ **Deposits and Investments**

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

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

Investments classified as cash equivalents include a money market fund and 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.

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

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission (SEC) Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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

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

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the moving average basis, except that General Fund instructional materials and transportation inventories are stated at cost based on the last invoice, which approximates the first-in, first-out method, and United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

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

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

during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

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

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program

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

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 unexpended balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids Program. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classrooms for Kids Program funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 7, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

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

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	\$ 9,130.00
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	748,160.75
Debt Service Accounts	6 Months	68,673.08
Dreyfus Cash Management - Institutional Shares Money Market Fund (1)	53 Day Average	39,881,564.16
Common Stock		545.00
Total Investments		\$ 40,708,072.99

Notes: (1) Investments reported as cash equivalents 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 and Dreyfus Cash Management – Institutional Shares had weighted average days to maturity (WAM) of 31 days and 53 days, respectively, at June 30, 2011. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

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

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The Board has adopted an investment policy that authorizes investing in qualified public depositories, certificates of deposit, time deposits, securities of the United States Government, investment pools managed and directed by an approved agency of the State, and certain forms of investments authorized in accordance with Section 218.415, Florida Statutes.
- The District’s investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- The District’s investment in Florida PRIME is rated AAAM by Standard & Poor’s. Fund B is unrated.
- The District’s investment in the Dreyfus Cash Management – Institutional Shares is rated AAAM by Standard & Poor’s and Aaa-mf by Moody’s Investors Service.

4. LEASE PAYMENTS RECEIVABLE

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>\$ 550,243.00</u>	<u>\$ 529,251.33</u>	<u>\$ 20,991.67</u>

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

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,546,386.35	\$	\$	\$ 1,546,386.35
Construction in Progress	1,451,361.29	1,979,305.78	2,920,645.12	510,021.95
Total Capital Assets Not Being Depreciated	2,997,747.64	1,979,305.78	2,920,645.12	2,056,408.30
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,584,731.71	413,534.32		6,998,266.03
Buildings and Fixed Equipment	117,412,997.34	2,507,110.80		119,920,108.14
Furniture, Fixtures, and Equipment	13,621,307.20	705,362.31	697,262.41	13,629,407.10
Motor Vehicles	8,693,962.29	515,805.21		9,209,767.50
Property Under Capital Lease	960,809.87			960,809.87
Computer Software	339,222.36	17,763.28		356,985.64
Total Capital Assets Being Depreciated	147,613,030.77	4,159,575.92	697,262.41	151,075,344.28
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,415,666.46	251,990.05		4,667,656.51
Buildings and Fixed Equipment	72,506,208.90	3,869,753.53		76,375,962.43
Furniture, Fixtures, and Equipment	10,157,809.24	1,018,135.93	697,262.41	10,478,682.76
Motor Vehicles	6,558,898.45	666,578.90		7,225,477.35
Property Under Capital Lease	302,058.29	384,323.87		384,323.87
Computer Software	302,058.29	13,394.18		315,452.47
Total Accumulated Depreciation	93,940,641.34	6,204,176.46	697,262.41	99,447,555.39
Total Capital Assets Being Depreciated, Net	53,672,389.43	(2,044,600.54)		51,627,788.89
Governmental Activities Capital Assets, Net	\$ 56,670,137.07	\$ (65,294.76)	\$ 2,920,645.12	\$ 53,684,197.19

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

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 45,000.00	\$	\$	\$ 45,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,343.00			5,343.00
Buildings and Fixed Equipment	2,289,686.62			2,289,686.62
Furniture, Fixtures, and Equipment	1,246,609.78	41,998.95		1,288,608.73
Motor Vehicles	69,160.00			69,160.00
Computer Software	2,458,571.97	748,948.88		3,207,520.85
Total Capital Assets Being Depreciated	6,069,371.37	790,947.83		6,860,319.20
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,137.20	1,068.60		3,205.80
Buildings and Fixed Equipment	1,175,744.85	84,748.28		1,260,493.13
Furniture, Fixtures, and Equipment	943,700.76	91,680.22		1,035,380.98
Motor Vehicles	59,350.00	9,810.00		69,160.00
Computer Software	995,863.84	536,290.05		1,532,153.89
Total Accumulated Depreciation	3,176,796.65	723,597.15		3,900,393.80
Total Capital Assets Being Depreciated, Net	2,892,574.72	67,350.68		2,959,925.40
Business-Type Activities Capital Assets, Net	<u>\$ 2,937,574.72</u>	<u>\$ 67,350.68</u>	<u>\$ 0.00</u>	<u>\$ 3,004,925.40</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 666,578.90
Unallocated	5,537,597.56
Total Depreciation Expense - Governmental Activities	<u>\$ 6,204,176.46</u>
BUSINESS-TYPE ACTIVITIES	
North East Florida Educational Consortium:	
Risk Management Programs	\$ 1,581.78
Other Programs	720,715.45
Employee Benefits Program	1,299.92
Total Depreciation Expense - Business-Type Activities	<u>\$ 723,597.15</u>

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

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	\$ 870,000	4.000 - 5.375	2015
Series 2004A	355,000	3.750 - 4.625	2024
Series 2005A	55,000	4.0 - 5.0	2025
Series 2005A, Refunding	225,000	5.0	2017
Series 2005B, Refunding	225,000	5.0	2018
Series 2008A	615,000	3.5 - 5.0	2028
Series 2009A, Refunding	<u>135,000</u>	4.0 - 5.0	2019
 Total Bonds Payable	 <u>\$2,480,000</u>		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	\$ 444,671.25	\$ 325,000.00	\$ 119,671.25
2013	436,108.75	330,000.00	106,108.75
2014	449,402.50	360,000.00	89,402.50
2015	420,946.25	350,000.00	70,946.25
2016	202,840.00	150,000.00	52,840.00
2017-2021	642,096.25	465,000.00	177,096.25
2022-2026	454,450.00	375,000.00	79,450.00
2027-2028	<u>133,850.00</u>	<u>125,000.00</u>	<u>8,850.00</u>
 Total State School Bonds	 <u>\$ 3,184,365.00</u>	 <u>\$ 2,480,000.00</u>	 <u>\$ 704,365.00</u>

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

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 2,780,000.00	\$	\$ 300,000.00	\$ 2,480,000.00	\$ 325,000.00
Compensated Absences Payable	10,625,004.00	4,323,335.20	5,826,208.61	9,122,130.59	1,824,426.12
Other Postemployment Benefits Payable	4,067,130.81	2,427,784.08	497,932.34	5,996,982.55	
Total Governmental Activities	<u>\$ 17,472,134.81</u>	<u>\$ 6,751,119.28</u>	<u>\$ 6,624,140.95</u>	<u>\$ 17,599,113.14</u>	<u>\$ 2,149,426.12</u>
BUSINESS-TYPE ACTIVITIES					
Estimated Insurance Claims Payable	\$ 9,987,000.00	\$ 3,351,251.00	\$ 4,822,251.00	\$ 8,516,000.00	\$ 2,920,000.00
Compensated Absences Payable	1,046,941.41	357,533.02	455,149.33	949,325.10	189,865.03
Other Postemployment Benefits Payable	582,069.19	119,444.92	406,467.66	295,046.45	
Total Business-Type Activities	<u>\$ 11,616,010.60</u>	<u>\$ 3,828,228.94</u>	<u>\$ 5,683,867.99</u>	<u>\$ 9,760,371.55</u>	<u>\$ 3,109,865.03</u>

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2012	<u>\$ 138,415.00</u>	<u>\$ 133,878.75</u>	<u>\$ 4,536.25</u>

The following is a summary of changes in internal balances attributable to the capital lease:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due In One Year
Internal Balances	<u>\$ 510,070.15</u>	<u>\$ 0.00</u>	<u>\$ 376,191.40</u>	<u>\$ 133,878.75</u>	<u>\$ 133,878.75</u>

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

In addition to the internal balances attributable to the capital lease previously described, business-type activities owe governmental activities a net amount of \$170,000. As a result, the District reported governmental and business-type activity internal positive and negative balances of \$36,121.25, respectively.

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

Funds	Interfund	
	Receivables	Payables
Major Governmental:		
General	\$ 3,779,783.85	\$ 335,000.00
Special Revenue:		
Federal Economic Stimulus		2,080,617.99
Other		1,529,165.86
Nonmajor Governmental	2,892,791.69	188,296.65
Major Enterprise:		
NEFEC Risk Management	587,710.20	
NEFEC Other Programs		757,710.20
Internal Service	335,000.00	2,704,495.04
Total	\$ 7,595,285.74	\$ 7,595,285.74

The outstanding interfund balances result mainly from expenditure and reimbursement timing differences between funds. The interfund amounts represent temporary loans and are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Governmental:		
General	\$ 4,662,936.00	\$ 335,000.00
Nonmajor Governmental		4,662,936.00
Internal Service	335,000.00	
Total	\$ 4,997,936.00	\$ 4,997,936.00

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

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

9. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type 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 inventories, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories and permanent fund principal as nonspendable.

➤ **Restricted**

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

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any 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 and not included in other categories. On August 17, 2010, the Board issued a resolution authorizing the Chief Financial Officer to assign fund balance.

➤ **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.

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Governmental Funds:	
Florida Education Finance Program	\$ 34,052,882.00
Categorical Educational Program - Class Size Reduction	11,737,662.00
Voluntary Prekindergarten	973,407.44
Motor Vehicle License Tax (Capital Outlay and Debt Service)	498,323.89
Workforce Development Program	484,657.00
School Recognition	305,223.00
Gross Receipts Tax (Public Education Capital Outlay)	272,482.00
Food Service Supplement	128,218.00
Miscellaneous	<u>612,707.34</u>
Subtotal - Governmental	<u>49,065,562.67</u>
Enterprise Funds:	
Web-Based Instructional Programs Grant	1,000,000.00
Regional Consortium Services Grant	619,453.00
Other State Grants and Contracts	<u>287,170.27</u>
Subtotal - Enterprise	<u>1,906,623.27</u>
Total	<u><u>\$ 50,972,185.94</u></u>

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

11. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.363	\$ 21,527,978.03
Basic Discretionary Local Effort	0.748	3,002,596.97
Critical Operating Needs	0.250	1,003,541.77
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>6,021,250.62</u>
Total	<u><u>7.861</u></u>	<u><u>\$ 31,555,367.39</u></u>

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

12. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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.

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

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	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
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 \$6,220,002.79, \$6,348,091.47, and \$6,241,091.07, respectively, which were equal to the required contributions for each fiscal year. There were 163 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$639,529.23.

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

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

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The other postemployment benefits plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the

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

Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board Policy 6.215. Eligible retirees are entitled to receive the benefits provided under this defined benefit plan from the time of retirement until eligible to enroll in the Federal Medicare program for their primary coverage. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 199 retirees received postemployment benefits. The District provided required contributions of \$904,400 toward the annual OPEB cost, net of retiree contributions totaling \$801,869, which represents 1.2 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 1,588,955
Amortization of Unfunded Actuarial Accrued Liability	836,461
Interest on Normal Cost and Amortization	<u>97,017</u>
Annual Required Contribution	2,522,433
Interest on Net OPEB Obligation	185,968
Adjustment to Annual Required Contribution	<u>(161,172)</u>
Annual OPEB Cost (Expense)	2,547,229
Contribution Toward the OPEB Cost	<u>(904,400)</u>
Increase in Net OPEB Obligation	1,642,829
Net OPEB Obligation, Beginning of Year	<u>4,649,200</u>
Net OPEB Obligation, End of Year	<u><u>\$ 6,292,029</u></u>

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

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 preceding two years, were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 2,708,500	\$ 1,271,500	46.9%	\$ 2,976,200
2009-10	2,435,800	762,800	31.3%	4,649,200
2010-11	2,547,229	904,400	35.5%	6,292,029

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

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

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

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

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

14. 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	Special Revenue - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 749,181.15	\$ 4,200.77	\$ 62,888.11	\$ 1,093,263.70	\$ 1,909,533.73

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

Project	Contract Amount	Completed to Date	Balance Committed
Middleton-Burney Elementary School Hurricane Enhancement	\$ 965,629.00	\$ 262,139.10	\$ 703,489.90

15. CONSORTIUM

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

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Putnam County District School Board is a member of NEFEC (see Note 15) and participates in NEFEC's Risk Management Programs relating to property and casualty insurance, under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such risk management programs. NEFEC's Risk Management Programs for property and casualty insurance are a risk-sharing

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

public entity pool that is self-sustaining through member assessments (premiums). Coverage is purchased through commercial companies for claims in excess of specified amounts. Activities applicable to the NEFEC Risk Management Property/Casualty Program are included in the business-type activities on the financial statements.

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

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

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

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

17. PUBLIC ENTITY RISK POOL

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

Summary of Significant Accounting Policies

- **Unpaid Claims Liabilities** – NEFEC RMP establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Actual claims costs depend on such complex factors as inflation, changes in

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

doctrines of legal liability, and damage awards. Accordingly, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability and workers’ compensation. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect settlements, claim frequency, and other economic and social factors.

- **Excess Insurance** – NEFEC RMP has entered into agreements with various insurance companies to provide specific excess coverage for claim amounts above a stated amount on an individual claim basis and aggregate excess coverage when total claims minus specific excess coverage exceed the loss fund. The amount of \$407,025.12 in excess insurance recoverable on unpaid claims was deducted from the liability for unpaid claims at June 30, 2011.
- **Investment Income** – Investment income is not treated as an offset to reserves.

Unpaid Claims Liabilities

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

	<u>Reconciliation of Claims Liability</u>	
	<u>2009-10</u>	<u>2010-11</u>
Estimated Insurance Claims Payable, Beginning of Year	<u>\$ 9,565,000</u>	<u>\$ 9,987,000</u>
Incurred Claims and Claims Adjustment Expenses:		
Provision for Insured Events of Current Year	5,163,000	5,101,000
Increase (Decrease) in Provision for Insured Events of Prior Years	258,000	(2,518,000)
Increase (Decrease) in Estimated Incurred Claims Assigned	<u>(94,494)</u>	<u>768,251</u>
Total Incurred Claims and Claims Adjustment Expenses	<u>5,326,506</u>	<u>3,351,251</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to:		
Insured Events of the Current Year	1,650,000	1,952,000
Insured Events of Prior Years	3,463,000	2,997,000
Adjustments for Payments from Excess Insurers and Subrogation	<u>(208,494)</u>	<u>(126,749)</u>
Total Payments	<u>4,904,506</u>	<u>4,822,251</u>
Estimated Insurance Claims Payable, End of Year	<u><u>\$ 9,987,000</u></u>	<u><u>\$ 8,516,000</u></u>

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 170,000.00	\$ 274,455.14	\$ 275,038.78	\$ 583.64
Federal Through State and Local	475,000.00	475,000.00	526,998.48	51,998.48
State	49,235,464.00	48,118,031.22	48,069,369.07	(48,662.15)
Local:				
Property Taxes	24,411,162.00	24,411,162.00	24,699,379.99	288,217.99
Miscellaneous	1,018,500.00	1,311,532.66	1,197,111.47	(114,421.19)
Total Revenues	75,310,126.00	74,590,181.02	74,767,897.79	177,716.77
Expenditures				
Current - Education:				
Instruction	46,010,666.99	49,322,817.59	44,963,799.09	4,359,018.50
Pupil Personnel Services	3,197,538.08	3,652,834.83	3,226,868.19	425,966.64
Instructional Media Services	2,580,774.94	2,729,048.03	2,371,322.80	357,725.23
Instruction and Curriculum Development Services	1,656,622.43	2,299,359.29	1,755,298.90	544,060.39
Instructional Staff Training Services	95,170.96	428,951.48	415,382.05	13,569.43
Instruction Related Technology				
School Board	1,240,375.00	538,897.62	534,493.23	4,404.39
General Administration	1,123,010.04	1,114,330.54	813,023.12	301,307.42
School Administration	5,995,099.13	5,933,497.70	4,951,604.86	981,892.84
Facilities Acquisition and Construction	11,075.00	17,929.08	7,952.07	9,977.01
Fiscal Services	718,981.04	752,563.98	734,733.66	17,830.32
Food Services		62,315.43	62,315.43	
Central Services	946,185.50	1,031,595.65	1,015,800.09	15,795.56
Pupil Transportation Services	4,414,278.07	4,881,214.01	4,789,809.97	91,404.04
Operation of Plant	8,766,048.64	7,388,579.16	6,935,224.96	453,354.20
Maintenance of Plant	3,764,603.05	3,742,392.84	3,310,106.38	432,286.46
Administrative Technology Services	1,023,712.66	514,064.16	487,374.20	26,689.96
Community Services	2,500.00	2,500.00		2,500.00
Fixed Capital Outlay:				
Facilities Acquisition and Construction		175.11	175.11	
Other Capital Outlay		195,771.81	195,771.81	
Total Expenditures	81,546,641.53	84,608,838.31	76,571,055.92	8,037,782.39
Excess (Deficiency) of Revenues Over Expenditures	(6,236,515.53)	(10,018,657.29)	(1,803,158.13)	8,215,499.16
Other Financing Sources (Uses)				
Transfers In	4,601,723.00	5,075,215.00	4,662,936.00	(412,279.00)
Insurance Loss Recoveries		31,223.36	36,498.99	5,275.63
Transfers Out		(735,000.00)	(335,000.00)	400,000.00
Total Other Financing Sources (Uses)	4,601,723.00	4,371,438.36	4,364,434.99	(7,003.37)
Net Change in Fund Balances	(1,634,792.53)	(5,647,218.93)	2,561,276.86	8,208,495.79
Fund Balances, Beginning	9,187,956.02	9,187,956.02	9,182,075.62	(5,880.40)
Fund Balances, Ending	\$ 7,553,163.49	\$ 3,540,737.09	\$ 11,743,352.48	\$ 8,202,615.39

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

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - TEN-YEAR CLAIMS DEVELOPMENT INFORMATION -
NORTH EAST FLORIDA EDUCATIONAL CONSORTIUM RISK MANAGEMENT PROPERTY/CASUALTY PROGRAMS
For the Fiscal Year Ended June 30, 2011**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Earned Required Contribution and Investment Revenues:										
Earned	\$ 8,725,260	\$ 12,760,628	\$ 14,097,997	\$ 14,550,526	\$ 13,634,123	\$ 16,964,979	\$ 17,082,175	\$ 15,303,151	\$ 15,304,938	\$ 14,363,068
Excess Insured	2,547,000	4,465,441	4,795,865	4,973,645	4,439,275	7,619,617	7,996,481	6,860,872	6,805,867	6,676,729
Total Net Earned Required Contribution and Investment Revenues	6,178,260	8,295,187	9,302,132	9,576,881	9,194,848	9,345,362	9,085,694	8,452,279	8,499,071	7,686,339
Unallocated Expenses	893,532	555,023	522,222	543,573	1,411,069	1,474,414	1,642,152	1,602,246	1,069,895	2,131,357
Estimated Incurred Claims and Expenses, End of Policy Year:										
Incurred	6,479,000	6,590,000	6,976,000	6,597,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000	5,101,000
Net Paid (Cumulative) as of:										
End of Policy Year	1,475,000	1,493,000	1,596,000	1,679,000	1,844,000	1,899,000	2,178,000	1,554,000	1,650,000	1,952,000
One Year Later	3,255,000	3,433,000	3,081,000	2,966,000	2,933,000	2,778,000	3,554,000	3,309,000	3,305,000	
Two Years Later	4,234,000	4,712,000	3,539,000	3,366,000	3,397,000	3,484,000	4,360,000	3,879,000		
Three Years Later	4,869,000	5,320,000	3,891,000	3,546,000	3,857,000	3,827,000	4,695,000			
Four Years Later	4,969,000	5,507,000	4,105,000	3,586,000	4,090,000	3,989,000				
Five Years Later	5,260,000	5,600,000	4,417,000	3,595,000	4,200,000					
Six Years Later	5,305,000	5,732,000	4,422,000	3,623,000						
Seven Years Later	5,336,000	5,755,000	4,429,000							
Eight Years Later	5,408,000									
Nine Years Later	5,417,000									
Reestimated Excess Insured Claims and Expenses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	6,479,000	6,590,000	6,976,000	6,597,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000	5,101,000
One Year Later	6,569,000	6,399,000	5,545,000	5,153,000	5,332,000	5,061,000	5,529,000	5,490,000	4,947,000	
Two Years Later	5,936,000	6,513,000	4,778,000	4,685,000	4,869,000	4,557,000	5,771,000	5,032,000		
Three Years Later	5,749,000	6,245,000	4,961,000	4,353,000	4,595,000	4,549,000	5,327,000			
Four Years Later	5,553,000	6,399,000	4,946,000	4,087,000	4,570,000	4,360,000				
Five Years Later	5,763,000	6,411,000	4,849,000	3,891,000	4,489,000					
Six Years Later	5,741,000	6,092,000	4,798,000	3,897,000						
Seven Years Later	5,622,000	5,950,000	4,764,000							
Eight Years Later	5,701,000	5,947,000								
Nine Years Later	5,680,000									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	(799,000)	(643,000)	(2,212,000)	(2,690,000)	(2,576,000)	(1,848,000)	(1,224,000)	6,000	(216,000)	0

Note (1): Information relating to excess insured is not available.

**PUTNAM 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. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The District obtained a revised actuarial valuation of the unfunded actuarial accrued liability for its Other Postemployment Benefits Program as of July 1, 2009, for the 2009-10 fiscal year. As a result of certain changes in the Program, the unfunded actuarial accrued liability decreased from \$27,759,000 to \$25,093,825. These changes include:

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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	\$ 1,319,842.76	\$
National School Lunch Program	10.555	300, 350	3,493,528.20	
Summer Food Service Program for Children	10.559	323	62,928.48	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	394,824.63	
Total Child Nutrition Cluster			5,271,124.07	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	103,892.17	
Fresh Fruit and Vegetable Program	10.582	300	79,044.99	
Florida Department of Financial Services:				
Secure Payments to States and Counties Containing Federal Lands	10.665	None	42,859.81	
Total United States Department of Agriculture			5,496,921.04	
United States Department of Justice:				
Direct:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	341,887.84	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	76,110.00	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	402,342.76	144,128.03
Fund for the Improvement of Education	84.215	N/A	91,820.12	
Early Reading First	84.359	N/A	944,019.15	169,661.74
Teacher Incentive Fund	84.374	N/A	529,277.93	
Total Direct			1,967,559.96	313,789.77
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	5,314,986.69	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	1,372,125.14	
Total Title I, Part A Cluster			6,687,111.83	
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	5,248,147.62	387,920.00
Special Education - Preschool Grants	84.173	156,650, 267	156,650.48	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	941,041.66	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	50,147.27	
Total Special Education Cluster			6,395,987.03	387,920.00
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	41,598.37	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	24,366.37	
Total Education for Homeless Children and Youth Cluster			65,964.74	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	118,180.92	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	5,714.08	
Total Educational Technology State Grants Cluster			123,895.00	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	3,327,509.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	2,026,975.15	683,550.39
Total State Fiscal Stabilization Fund Cluster			5,354,484.15	683,550.39
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	135,196.14	
Migrant Education - State Grant Program	84.011	217	267,665.04	
Career and Technical Education - Basic Grants to States	84.048	161	280,274.28	
Twenty-First Century Community Learning Centers	84.287	244	1,914,278.01	
Reading First State Grants	84.357	211	47,028.17	
Rural Education	84.358	110	316,423.47	
English Language Acquisition Grants	84.365	102	121,437.60	
Improving Teacher Quality State Grants	84.367	224	808,108.82	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	596,384.40	
Education Jobs Fund	84.410	541	2,171,602.00	
University of South Florida:				
Mathematics and Science Partnership	84.366	None	58,568.31	
Total Indirect			25,344,408.99	1,071,470.39
Total United States Department of Education			27,311,968.95	1,385,260.16

PUTNAM COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
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 Health and Human Services:				
Indirect:				
Florida Department of Education:				
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	93.714	540	\$ 94,989.00	\$
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	183,118.66	\$
Total Expenditures of Federal Awards			\$ 33,504,995.49	\$ 1,385,260.16

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

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



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding 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. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain

deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

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

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 22, 2012



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

Compliance

We have audited the Putnam County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 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.

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Allowable Costs/Cost Principles applicable to its Title I, Part A Cluster and Teacher Incentive Fund programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 for the Twenty-First Century Community Learning Centers program and Federal Awards Finding Nos. 2 and 3.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 for the Twenty-First Century Community Learning Centers program, and Federal Awards Finding Nos. 2 and 3, to be significant deficiencies.

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

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 22, 2012

**PUTNAM 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?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs, except for the Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA) and Teacher Incentive Fund (CFDA No. 84.374), which were qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Teacher Incentive Fund (CFDA No. 84.374); 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:	\$1,005,149
Auditee qualified as low-risk auditee?	No

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

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Our review of the District’s 2010-11 fiscal year annual financial report (AFR), as presented for audit, disclosed that financial reporting procedures could be improved, as discussed below.

Government-wide Financial Statements

District personnel responsible for preparing the financial statements did not fully understand the conversion entries necessary to prepare the government-wide financial statements, resulting in certain financial reporting errors. For example:

- Due from other agencies reported in the governmental funds of approximately \$4.5 million and internal service funds cash and cash equivalents of approximately \$2.3 million were mistakenly excluded from the governmental activities and reported as internal balances due from the proprietary funds. These errors resulted in due from other agencies and cash and cash equivalents being understated on the statement of net assets by a total of \$6.8 million, and internal balances overstated by \$6.8 million.
- The District inadvertently misclassified its compensated absences and other postemployment benefits (OPEB) payables as capital asset-related debt. As a result, there was an overstatement of unrestricted net assets and understatement of investment in capital assets, net of related debt, of approximately \$15.4 million, respectively.
- For the 2009-10 fiscal year, the District did not initially report expenses of approximately \$1.8 million and \$1.1 million for changes in compensated absences payable and OPEB payable, respectively, and the District accepted audit adjustments that corrected these errors. However, District personnel did not consider the effect of these and certain other corrections on the 2010-11 fiscal year AFR, resulting in an overstatement of beginning net assets and governmental activities expenses by approximately \$3.1 million each.

Misreporting asset and net asset classifications may cause financial statement users to incorrectly assess the District’s financial position.

Governmental Fund Statements

- The District did not correctly report transactions relating to State Public Education Capital Outlay appropriations. As a result, in the other governmental funds, due from other agencies and deferred revenue were understated by \$914,698 and \$642,216, respectively, and revenues and fund balance restricted for capital projects were each overstated by \$272,482. Misreporting assets, liabilities, and fund balances may cause financial statement users to incorrectly assess the District’s financial position.

Proprietary Fund Statements

- For the 2009-10 fiscal year, in the North East Florida Educational Consortium (NEFEC) Other Programs Fund, the District did not report lease receivable and related revenue of \$2,012,659 each, and did not report an expense and related liability of \$555,182 each for OPEB transactions, that were corrected by audit

adjustments accepted by the District. However, District personnel did not consider the effect of these corrections on the 2010-11 fiscal year AFR and did not correctly report activities related to the lease receivable during the 2010-11 fiscal year. As a result, beginning net assets, lease receivable, and deferred revenue were understated by \$1,457,477, \$550,243, and \$20,991, respectively, and charges for services revenues and employee benefits expenses were overstated by \$1,483,407 and \$555,182, respectively. Misreporting proprietary fund lease receivable and OPEB activities may cause financial statement users to be misinformed about the program’s financial activity.

- The District reported estimated insurance claims payable and related expenses based on an estimate by District personnel instead of using the actuarially determined amount. As a result, the estimated insurance claims payable and related expenses amounts were overstated \$997,380 each for the NEFEC Risk Management Programs Fund. Misreporting proprietary fund risk management expenses and liabilities may cause financial statement users to be misinformed about the program’s financial position
- The District, as fiscal agent for the NEFEC Employee Benefits Program, is responsible for reporting program assets and liabilities on their financial statements. However, the District mistakenly omitted a portion of the Employee Benefits Program from its NEFEC Employee Benefits Program Fund. As a result, cash and cash equivalents, investments, accounts payable, and due to other agencies were understated by \$210,369, \$320,821, \$14,000, and \$517,190, respectively, thus miscommunicating these balances to financial statement users.

Required Supplementary Information (RSI)

- Generally accepted accounting principles require certain supplementary information be included in the District’s annual financial report, such as budgetary comparison schedules for the General and major special revenue funds; however, the District did not properly report certain original budget amounts for these funds. In the Special Revenue – Federal Economic Stimulus Fund, revenues and expenditures were underreported in total by \$43,116 and \$788,033, respectively, and there were differences for various expenditure functions ranging from \$202,315 underreported to \$182,286 overreported. Similarly, total General Fund revenues were underreported by \$1,047,679, General Fund expenditures were overreported by \$220,575, and Special Revenue – Other Fund expenditures were underreported by \$153,423. Incorrectly reporting original budget amounts could limit financial statement users from effectively understanding budgetary controls over the General and major Special Revenue Funds.

The above reporting errors occurred mainly because of inexperience in preparing the financial statements and uncorrected entries remaining from the prior fiscal year financial statements. In addition, review procedures were not effective to detect and correct reporting errors. We extended our procedures to determine the adjustments necessary to ensure the District’s financial statements were materially correct and RSI included the required elements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2011-162.

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

SIGNIFICANT DEFICIENCY

Finding No. 2: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to the general ledger 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 totaling approximately \$57 million at June 30, 2011, including cash in bank totaling approximately \$17 million.

An accountant in the Divisions of Fiscal Services Office was responsible for preparing reconciliations for the District's 14 separate bank accounts and the chief financial officer was responsible for reviewing and approving the reconciliations. The payroll clearing bank account had the most activity of the District's bank accounts with deposits and disbursements of approximately \$88 million each for the 2010-11 fiscal year. However, our review disclosed that bank account reconciliations were not performed within 30 days of bank statement dates for the July 2010 through February 2011 bank statements, and the payroll clearing bank account reconciliations for these months were not completed and approved until three to seven months after the bank statement date. Beginning with the March 2011 bank statements, the District timely prepared its bank account reconciliations, except for the payroll clearing bank account reconciliations, which were not completed as of March 16, 2012. As of this date, there remained unidentified differences in the monthly bank account reconciliations from December 2009 through June 2011 ranging from \$284 to \$37,400 with the net monthly positive and negative differences resulting in the bank balance exceeding the general ledger by \$21,698.

District personnel indicated that implementation of a new financial accounting system prevented timely reconciliation of the payroll bank account and they plan to use the system's bank reconciliation function to improve the payroll reconciliation process. Failure to provide timely bank reconciliations increases the risk that errors or fraud could occur and not be promptly detected. A similar finding was noted in our report No. 2011-162.

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

ADDITIONAL MATTERS

Finding No. 3: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay related purposes within specified millage rates subject to certain precedent conditions. Section 1011.71(5), Florida Statutes, provides that the District may expend up to \$100 per unweighted full time equivalent student from the revenue generated for certain specified purposes, including paying the cost of certain motor vehicles and premiums for property and casualty insurance necessary to insure school district educational and ancillary plants. In addition, Chapter 2011-55, Laws of Florida, provides that the Commissioner of the Florida Department Education (FDOE) may waive compliance with Section 1011.71, Florida Statutes, if a district acted in good faith for payment of premiums for property insurance and casualty insurance made prior to January 1, 2011. The District accounts for most of the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2010-11 fiscal year, the District incurred LCI Fund expenditures totaling \$1,556,634 and transfers totaling \$4,589,444 to the General Fund. Our tests of these expenditures and transfers disclosed \$908,220 of transfers that did not appear to have been used for purposes authorized by Section 1011.71, Florida Statutes, including \$426,128 for certain insurance premiums and \$482,092 for operation and maintenance of plant expenditures as discussed below.

Premiums for Property and Casualty Insurance. The District is a member, and serves as fiscal agent, of NEFEC and participates in NEFEC's Risk Management Program relating to property and casualty insurance. Several districts established the Program, self-sustained through member assessments (premiums), as a combined limited

self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of NEFEC.

For the 2010-11 fiscal year, NEFEC initially assessed participating districts their applicable premiums without identifying the portions of the premium that were applicable to the specific coverage areas, and the District paid premiums totaling approximately \$1.9 million from its General Fund to participate in the Program. In April 2011, NEFEC provided participating districts with a methodology for determining the portion of premium costs attributable to property and casualty insurance for educational and ancillary plants. Utilizing the methodology, District personnel determined that \$663,316 of the District's premium would be an allowable use of ad valorem tax levy proceeds; however, on April 18, 2011, the District transferred \$1,089,444 (\$100 per unweighted full-time equivalent student) from the LCI Fund to the General Fund for property and casualty insurance. Because the premium payments were not paid or reimbursed from ad valorem tax levy proceeds until after January 1, 2011, the waiver does not apply and the \$426,128 of funds transferred in excess of the allowable amount represents questioned costs.

District personnel indicated that the transfer was included in the original budget and, because more than the amount transferred was paid from the General Fund prior to January 1, 2011, the statutory waiver would apply. However, FDOE personnel advised us that a transfer of funds from the LCI Fund to the General Fund after January 1, 2011, is not considered as acting in good faith and would not waive the equal-dollar reduction on the payment of insurance premiums made prior to January 1, 2011.

Operation and Maintenance of Plant. For the 2010-11 fiscal year, the District transferred \$3,500,000 to its General Fund to cover the costs of operating its Maintenance Department and certain operation of plant costs. Our tests of expenditures paid from the transferred funds disclosed the following expenditures that did not appear to be for purposes authorized by Section 1011.71, Florida Statutes:

Description	Questioned Costs
Operation of Plant (1)	\$ 219,909
Maintenance Department Secretaries and Clerks (2)	90,251
Motor Vehicles (3)	51,270
Tree Trimming and Lanscaping (4)	36,805
Carpet Cleaning (4)	32,757
Pest Control (4)	27,226
Office, Custodial, Grounds, and First Aid Supplies (4)	18,465
Out-of-County Travel (5)	2,909
Physical Exams (6)	2,500
Total	<u>\$ 482,092</u>

Notes:

- (1) The District paid the salaries, benefits, and cellular telephone costs for three custodial managers, as well as water, sewer, garbage, natural gas, and electricity costs associated with operating the maintenance facility. Custodial and operational costs are unallowable uses of ad valorem tax levy proceeds.
- (2) The District paid the salaries and benefits costs of the Maintenance Department secretaries and clerks; however, District records did not evidence the amount of time and effort these employees spent on maintenance projects funded with ad valorem tax levy proceeds. As such, the salaries and benefits costs of secretaries and clerks represent questioned costs of ad valorem tax levy proceeds.
- (3) The District paid for the cost of new maintenance vehicles; however, as discussed above under Premiums for Property and Casualty Insurance, the District utilized its full \$100 per unweighted full-time equivalent student allocation for such purposes for the payment of property insurance premiums.
- (4) These costs are grounds keeping, custodial, or preventative maintenance in nature and are not allowable uses of ad valorem tax levy proceeds.
- (5) These costs for out-of-County travel of maintenance personnel for training in asbestos recertification and backflow prevention certification are considered preventative maintenance and are not allowable uses of ad valorem tax levy proceeds.
- (6) The costs of physical exams are not an allowable use of ad valorem tax levy proceeds.

Ad Valorem Tax Levy Proceeds Accounted for in General Fund. The District’s General Fund had accumulated transfers of ad valorem tax levy proceeds in excess of expenditures totaling \$878,403 as of June 30, 2011, that are reported as restricted for capital outlay projects in the fund balance section of the governmental funds balance sheet. The District accounted for the current year transfer from the ad valorem tax levy proceeds and the unexpended amounts from previous years in a separate project account in the General Fund. However, by accounting for these moneys in one project account, District records did not clearly identify the fund balance at June 30, 2011, by the respective ad valorem tax levy year. In addition, the District did not calculate and allocate the interest earned on these restricted moneys to the project account, but instead retained them in the unrestricted portion of fund balance. Although the ad valorem tax levy proceeds were initially advertised and transferred to the General Fund to pay for certain maintenance-related expenditures, when restricted moneys, including the interest earned thereon, are not maintained and accounted for in the appropriate capital projects fund, there is an increased risk of the District using such proceeds for purposes not appropriately advertised for the respective tax levy, contrary to Sections 1011.71 and 200.065(10)(a), Florida Statutes.

A similar finding was noted in our report No. 2011-162.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the questioned costs totaling \$908,220 or restore these costs to the LCI Fund. The District should also take appropriate action to transfer the accumulated ad valorem tax levy proceeds accounted for in the General Fund, totaling \$878,403, and the interest earned thereon, to the respective LCI Fund maintained by fiscal year tax levy.

Finding No. 4: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate

integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, Superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

Board policy requires the Superintendent to develop and the Board approve procedures under which EFTs may be made, and the District established a bank agreement signed by the Superintendent, the Board chair, and two District employees designated as system administrators who could add, delete, or revise the capabilities (user profiles) of individuals authorized to make transfers. The system administrators and two other employees each had the capability to initiate and authorize EFTs, while two other employees had the capability to only initiate EFTs. The District regularly used EFTs for retirement benefits, Federal withholding taxes, direct deposits of employee pay, and transactions between District bank accounts. While the District used informal processes, including the use of an encrypted user authentication service and supervisory review of EFT transactions through e-mail notifications from the bank to control and monitor EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. Also, the bank agreement lacked the signatures of four of the six individuals authorized to initiate and approve EFTs, contrary to SBE Rule 6A-1.0012, FAC. Further, an appropriate separation of duties did not exist as the system administrators and two other employees each had the capability to initiate and authorize EFTs without secondary authorization of the EFTs.

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. In addition, the District should ensure appropriate separation of duties of initiating and authorizing EFTs.

Finding No. 5: 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 SBE rules and

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.

Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures for instructional personnel and school administrators generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010). Instructional personnel typically maintained records, in consultation with their school principal, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they met periodically with their school principal throughout the school year to assess the progress in meeting the projected goals. Similarly, school administrators met with their immediate supervisors to assess their progress. However, for instructional personnel and school administrators, 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 instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-162.

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

Finding No. 6: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),² provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in

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.

Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for coaches and grade and club sponsors. The instructional salary schedule also provided for a one-time payment for personnel to relocate to schools identified as extremely difficult due to school demographics, supplements for level of job performance difficulties for challenging assignments not normally associated with the employee's job description, and supplements for critical shortage areas identified by the District. While the District made salary payments to instructional personnel for additional responsibilities, no differentiated pay was provided to employees during the 2010-11 fiscal year for school demographics, level of job performance difficulties, or critical shortage areas. In the absence of providing differentiated pay, the usefulness and relevance of the established differentiated pay factors for school demographics, level of job performance difficulties, and critical shortage areas were not readily apparent.

- **School-based Administrators.** The salary schedule for school-based administrators indicated that the Superintendent would assign the pay of each administrator within a range, and additional supplements depending upon the administrator's evaluation, additional responsibilities, advanced degrees earned beyond master's level, and years of experience. However, the salary schedule did not evidence consideration of differentiated pay based on school demographics, level of job performance difficulties, or critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010). In addition, as discussed in Finding No. 7, the District provided salary adjustments or bonuses for certain administrative support personnel, including school-based administrators, although the basis upon which the salary adjustments and bonuses were awarded was not documented.

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 and Teacher Incentive Fund grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for 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. 2011-162.

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

Finding No. 7: Salary Adjustments and Bonuses

Section 1012.22, Florida Statutes, requires the Board to adopt salary schedules as a basis for paying school employees, and SBE Rule 6A-1.052, FAC, requires the adopted salary schedules to be the sole instrument in determining

compensation for employees. On August 10, 2010, the Board adopted revised salary schedules for the 2010-11 fiscal year, which contained salary ranges for instructional and administrative support personnel classifications, and hourly wage rates for noninstructional personnel. For administrative support personnel, the salary schedule also provided that the Superintendent may award administrative supplements for exceptional performance evidenced by written performance evaluations, assumption of additional administrative duties, number of employees supervised, advanced degrees beyond the master's degree level, and years of experience at the rank assigned.

Pursuant solely to a memorandum from the Superintendent dated December 16, 2010, 35 administrative support personnel received salary adjustments (increases) ranging from \$2,000 to \$5,000 and totaling \$102,000 and 79 administrative support personnel received one-time bonuses ranging from \$1,500 to \$3,500 and totaling \$131,000. Upon inquiry, we were advised by District personnel that the Superintendent has the authority to assign each employee a salary within the specified range and that the salary adjustments and bonuses actually were supplements. Although our review disclosed that all employees were compensated within approved salary ranges, District records did not evidence the basis upon which the salary increases and bonuses were awarded. In these circumstances, District records do not clearly evidence the basis upon which specific salary amounts were determined.

Recommendation: District procedures should be enhanced to ensure that personnel records clearly evidence the basis upon which salary adjustments and bonuses are approved by the Superintendent.

Finding No. 8: Compensation for Additional Work

The District pays contracted employees on a payroll by exception basis in which employees receive their regular pay each period, unless employees use more leave than accumulated, resulting in a reduction to their salary. The District also provides additional compensation to employees for duties performed beyond the standard work day. For the 2010-11 fiscal year, the District reported expenditures of approximately \$1.9 million for additional work.

The District had established informal procedures for approving and documenting additional work, which generally involved obtaining Board approval and submitting some form of documentation that the work was performed to authorize payment, such as time sheets, attendance rosters, or a memorandum. However, District records did not evidence written policies or procedures of the process for approving and documenting additional work and, with the exception of certain Federal grant agreements, the applicable rates of pay for additional work were not established in District salary schedules, negotiated bargaining agreements, or other District records.

We reviewed District records supporting 34 compensation payments to employees for additional work, including the related Board approvals, and noted the following:

- One employee was approved to work up to 10 additional 6 hour days at \$100 per day during July and August 2010, for assisting with curriculum instruction and planning. The employee reported working 6 hours on August 11 and 12 (3 hours per day) at Browning Pierce Elementary, but was also compensated for attending a workshop at Moseley Elementary held the same dates and times.
- One employee was paid \$1,638 at her regular rate of pay for working 58 hours from July 19 to July 29, 2010. The Board approval filed with the time sheet indicated authorization to pay instructional employees for after school tutoring beginning August 24, 2010; however, the hours paid were for work performed during July 2010 before the school year began and reported hours worked during mornings, afternoons, and evenings ranging from 8:30 am to 8 pm.
- Two employees were each paid for working 10 additional days during July 2010; however, the additional work was approved by the Board as emergency items in August and September 2010. One employee was paid \$100 per day for each 6.5 hour work day reported on the time sheet, or \$1,000, to assist in scheduling and

grouping students for the upcoming year and the other was paid their regular rate of pay, or \$1,657, to close out the books for the 2009-10 fiscal year. The requests from the employees' supervisors were not prepared until after the time sheet was completed and District records provided no indication of why the work could not have been anticipated and approved in advance.

- One employee was paid \$100 for working on August 17, 2010 (i.e., the day before teachers were required to return to work), for analyzing data and instructional planning; however, the authorization request for the work was not submitted to the Board until December 2010 and was approved as an emergency item in January 2011, five months after the work was performed. District records associated with this payment indicated that 35 employees from the same school were paid \$100 each for working that day. District records provided no indication of why the work could not have been anticipated and approved in advance.
- On April 5, 2011, the Board approved authorization requests for two employees from Mellon Elementary to be paid \$100 per day for 120 additional hours and one employee from Moseley Elementary to be paid \$25 per hour for 80 additional hours. All three employees were to be paid for aligning curriculum, setting up reading classes, and disaggregating test data during June 2011. The two employees from Mellon Elementary were paid \$1,150 and \$1,125, respectively, based upon time sheets submitted for work on 15 consecutive days from June 15, 2011, through June 30, 2011, including four weekend days each and numerous other hours reported before and after regular work day hours. Additionally, one of the employees dated the time sheet June 27, 2011, three days before the end of the pay period. For Moseley Elementary, two employees were paid \$2,000 each based upon time sheets documenting 80 hours of work. However, District records did not evidence the basis upon which the employees at one school were paid \$100 per day and employees at the other school paid \$25 per hour for work with the same description. In addition, District records did not evidence preapproval for the employees at Mellon Elementary to work before and after the regular work day and on weekends, or why two employees were paid at Moseley Elementary although only one was authorized in the request submitted and approved by the Board.
- The District contracted with 19 Supplemental Education Service (SES) providers that, in some cases, also employed District teachers who worked after the regular school day. The total compensation paid to SES providers was \$691,812. Our review of payments to one SES provider indicated four instances where teachers were working in after school employment and were also compensated on the same day for tutoring by an SES provider. However, because SES provider time sheets and invoices were not required to indicate the beginning and ending work times for tutoring, and tutorial services can be provided at a student's home or on-line, there is an increased risk that overpayments may occur.

We also noted in our review of the Board minutes that numerous requests were submitted to the Board for additional compensation with varying hours in the work day, and hourly and daily rates of pay depending on the school or department submitting the request. In addition, many of the requests were submitted and approved after the work had taken place. When requests for additional pay are not timely approved and submitted, there is an increased risk that errors may occur when recording, reporting, or paying extra pay, including the possibility that extra pay may be submitted and paid more than once. Absent written policies and procedures, the District may be limited in its ability to ensure that compensation for additional work is authorized at consistent rates of pay for comparable work, and that such work is necessary, reasonable, and within available budgets. Upon inquiry, we were advised by District personnel that policies and procedures will be developed prior to the 2012-13 fiscal year to address compensation for additional work and that procedures will be developed to monitor District employees who are also employed by SES providers.

Recommendation: The Board should adopt formal written policies and procedures addressing additional compensation to ensure such compensation is necessary, reasonable, and timely approved and submitted for payment.

Finding No. 9: 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 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. Instructional contact hours in a lab (an online class or an on-campus lab) must be within the constraints of reasonable attendance hours, which should be the number of hours they are reasonably expected to attend. A student must be procedurally withdrawn for non-attendance from the class by the institution after six consecutive absences from a class schedule, with the withdrawal date reported on the day after the last date of attendance. The maximum instructional contact hours for a student cannot exceed 1,300 per year.

For the 2010-11 fiscal year, the District reported to FDOE 67,231 adult general education contact hours for 356 students enrolled in 34 classes. To determine the propriety of hours reported, we tested 4,463 hours reported for 7 students enrolled in 20 adult general education lab classes and noted that the District overreported approximately 2,500 hours for 6 students and underreported approximately 500 hours for the other student. We also noted that 2 students were reported for 1,407 and 1,350 hours, respectively, for the 2010-11 fiscal year, which exceeded the 1,300 hour maximum. It was not practical to determine the exact number of misreported hours because District personnel had not established class schedules or determined reasonable hours that students were expected to attend, and did not maintain attendance records on a class by class basis.

District personnel indicated that these errors mainly occurred because the employees responsible for reporting the hours did not understand the reporting process. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

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

Finding No. 10: 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 to affected parties.

The District's security incident response procedures provided for reporting stolen or compromised information technology (IT) devices; however, the procedures did not include provisions for designated staff to be trained in incident response or procedures for the notification to affected parties required by Section 817.5681(1)(a), Florida Statutes. The District is the fiscal agent for NEFEC, which provides enterprise resource planning system services for member districts; however, NEFEC did not have a written computer security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of data or IT resources, the lack of a written security incident response plan that includes staff trained in incident response and notification procedures may result in failure to take appropriate and timely actions to prevent further loss or damage to data and IT resources.

Recommendation: The District and NEFEC should develop written IT security incident response plans to provide reasonable assurance that the District and NEFEC 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. 11: Information Technology – Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Clear division of roles and responsibilities between IT staff and application end-users and within the established overall IT function helps preclude the possibility of a single employee subverting a critical process. For example, restrictions that are generally addressed in separation of duties policies and achieved through organizational divisions and access controls include only application end-users being responsible for transaction origination or correction and for initiating changes to data files and IT personnel only having the access required to perform their job responsibilities.

NEFEC provides IT services to participating members through the NEFEC Regional Information Center (NRIC). Additionally, participating districts and institutions may have their own IT staff. Our review of selected access privileges of District IT and NRIC staff for the financial application disclosed that six NRIC IT employees had systemwide access privileges to the District's financial application that allowed them to perform end-user functions, such as transaction origination, correction, or other changes to payroll, expenditure, or other financial data files, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

While the District had controls in place (e.g., separation of the duties for initiating and approving purchases, adding and updating vendors, payroll updating and processing, and department supervisor monitoring of budget and actual expenditures) to help mitigate the effect of these deficiencies, the District did not have written policies and procedures providing for routine monitoring of the financial application security logs to timely detect improper or unauthorized activity. Similar findings were noted in previous audits of the District, most recently in our report No. 2011-162.

Recommendation: The District should review the appropriateness of NRIC employees' access privileges to the financial application and restrict access privileges to enforce an appropriate separation of IT and end-user duties. The District should also establish written policies and procedures providing for routine monitoring of the financial application security logs to detect improper or unauthorized activity.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Federal Direct Program: Teacher Incentive Fund (CFDA No. 84.374)

Award Number: S374A100033

Pass-Through Entity: Florida Department of Education

Pass-Through Programs: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); and Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Finding Type: Material Noncompliance and Material Weakness (CFDA Nos. 84.010, 84.389, and 84.374) Noncompliance and Significant Deficiency (CFDA No. 84.287)

Questioned Costs: Title I, Part A Cluster - \$173,433; Teacher Incentive Fund - \$59,252; and Twenty-First Century Community Learning Centers - \$7,000

Allowable Costs/Cost Principles. United States Office of Management and Budget (OMB) Circular A-87 provides that for an expenditure to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal award, must be adequately documented, and must be net of all applicable credits (e.g., purchase discounts). OMB Circular A-87 also provides that capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency, and that capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior approval of the awarding agency. The District set its capitalization threshold for equipment at \$1,000.

Title 34, Section 80.30, Code of Federal Regulations, provides that grantees may rebudget within the approved direct cost budget to meet unanticipated requirements and may make limited program changes to the approved project. The FDOE, as the pass-through agency for the Title I programs, developed the *Project Application and Amendment Procedures for Federal and State Grants* (Green Book), which sets forth the types of changes in grant activities or budgetary changes subject to prior approval by the grantor agency. The Green Book provides that where statutes or rules governing a program do not expressly stipulate program or budget amendment requirements, project recipients must obtain prior approval in writing for changes to the approved project application, involving issues such as goals and objectives, work tasks, types of personnel employed by the project, and contracting or sub-granting.

The District reported expenditures totaling \$529,278 for the Teacher Incentive Fund (TIF) program; totaling \$6,687,112 for the Title I, Part A Cluster (Title I); and totaling \$1,914,278 for the Twenty-First Century Community Learning Center (Twenty-First Century) program. We initially tested the propriety of expenditures totaling \$459,658, \$1,627,409, and \$285,654 for the TIF, Title I, and Twenty-First Century programs, respectively, to determine whether the charges were appropriate. Our review of expenditures disclosed the following:

- **TIF Digital Multi-Function Copier and Printer.** The District provided descriptions of planned equipment purchases in its approved project application; however, contrary to the approved project application and OMB Circular A-87 requirements, the District used TIF program funds to purchase a digital multi-function copier and printer (copier) costing \$53,700, that were not included in the approved project application or subsequent amendments. The copier was initially purchased from ad valorem tax levy moneys in March 2011, and was subsequently charged back to the TIF program during July 2011. District personnel advised us that the copier was used to print student test booklets used in measuring the progress of all District students and was considered an allowable expenditure because a portion of employee performance used in awarding TIF bonuses will be based upon student performance measured, in part, by the tests. However, the District did not obtain prior approval for this expenditure of \$53,700 and, as such, this expenditure represents questioned costs subject to disallowance by the grantor.

➤ **TIF Web Application Development Services.** The District also contracted with a firm for Web application development services for the TIF program. The Board-approved contract for these services provided for payment based on hours billed by the firm's programmer analyst at \$85 per hour and programmer tester at \$70.55 per hour. For the 2010-11 fiscal year, the firm was paid \$103,635 from the TIF program. Our review disclosed that the invoices submitted showed the hours worked by the programmer analyst and programmer tester and provided a general description of the work performed; however, the 384.25 hours reported for the programmer tester were billed at \$85 per hour rather than the \$70.55 per hour rate specified in the contract, resulting in additional costs of \$5,552. Upon inquiry, District personnel advised us that the District had previously entered into a continuing contract with the firm for Web application development services that provided for the \$85 per hour rate; however, District records did not evidence a basis for the continuing contract to supersede the terms and conditions specifically approved in the TIF program contract. Therefore, these expenditures, totaling \$5,552, do not appear necessary and reasonable charges to the TIF program and represent questioned costs subject to disallowance by the grantor.

➤ **Title I Program Contracted Professional Development Services.** The Board approved four contracts with a foundation for professional development services in July and September 2010 totaling \$630,025 from Title I program funds for 319 training sessions. Each contract provided that the District could pay the full amount incrementally as training days were provided or, if the District paid in advance by October 15, it could take a 3 percent discount; however, the discounts, totaling \$18,900, were not initially taken. Subsequent to our inquiry, the District recovered \$5,866 of the \$6,517 discount associated with a payment of \$217,250 made on August 17, 2010, and received a credit from the vendor for the remaining \$12,383 representing the discount associated with a payment \$412,775 made on October 29, 2010, after the discount period expired. However, because these expenditures were not net of all available credits, expenditures totaling \$651 (\$18,900 in available discounts less \$18,249 recovered or credited) represent questioned costs subject to disallowance by the grantor.

As noted above, the District paid \$630,025 for professional development services. The four contracts required the vendor to provide 319 training days at various District schools at a cost of \$1,975 per day; however, District records did not evidence that District personnel verified that the services were received. Upon inquiry, District personnel provided copies of example letters that the vendor provided subsequent to making school site visits indicating dates visited and describing the activities conducted; however, the letters discussed activities such as observing classrooms, meeting with teachers, and reviewing data and plans, and did not address professional development activities as specified in the contracts. In addition, District personnel had not developed procedures for monitoring the training days provided. Subsequent to our inquiry, District personnel obtained a listing from the vendor of the training days provided and reconciled the listing with the letters submitted after each visit, except for two training days that result in questioned costs of \$3,832. When charges to Federal programs are not properly monitored, the risk increases that services may not be performed in accordance with grant terms and District intentions.

➤ **Title I Program Contracted Training, Materials, and Software.** Our review of expenditures charged to the Title I program included the purchase of contracted training, materials, and software costing \$168,950 for the District's new employee performance evaluation system. The expenditures were initially charged to the TIF program in May and June 2011, and charged back to the Title I and ARRA–Title I programs in the amounts of \$141,605 and \$27,345, respectively, in July 2011. Although the District anticipated certain training and software purchases in the approved project application, the purchase of the new employee performance evaluation system was not addressed in the approved project applications or amendments. As the District did not obtain prior approval for these expenditures totaling \$168,950, the expenditures represent questioned costs subject to disallowance by the grantor.

➤ **Twenty-First Century Program Evaluation Services.** Our review of expenditures charged to the Twenty-First Century program disclosed contracted services payments to a firm for program evaluation services. The District entered into three separate \$15,000 contracts with the firm to evaluate each of the District's Twenty-First Century program after school program service areas. However, our review disclosed that for two of the contracts, the firm invoiced the District for and was paid \$18,000 and \$19,000, respectively. Therefore, these expenditures exceeding the respective contract amounts, totaling \$7,000, represent questioned costs subject to disallowance by the grantor.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding allowable costs/cost principles that is applicable to its TIF and Title I programs, our report on the District's compliance with this requirement includes a qualification to that effect.

Recommendation: The District should enhance its procedures to ensure that Federal program expenditures are only for allowable grant purposes, and charges are properly approved, documented, and supported. In addition, the District should document to the grantor (FDOE) the allowability of questioned costs of \$173,433 and \$7,000 for the Title I and the Twenty-First Century programs, respectively, and to the grantor (United States Department of Education) the allowability of questioned costs of \$59,252 for the TIF program.

District Contact Person: Rhonda Odom, Chief Financial Officer

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: ARRA-State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$40,300

Procurement – Contract Administration. Title 7, Section 3016.36(i), Code of Federal Regulations, requires that procurement contracts involving Federal funds contain certain provisions, including the following:

- For contracts in excess of \$10,000, a provision for termination for cause and convenience by the grantee or subgrantee, including the manner by which it will be effected and the basis of settlement.
- Access to records of the contractor that are directly pertinent to the contract.
- Retention of all required records for three years after the grantee or subgrantee makes the final payment and all other pending matters are closed.

Further, OMB Circular A-87, Attachment B, Section 32.b.(8), requires adequate contractual agreements for professional service costs that include such information as description of the service, estimate of the time required, rate of compensation, and termination provisions.

The District used State Fiscal Stabilization Fund moneys totaling \$40,300 to fund an ongoing arrangement with a nonprofit entity that the District had funded from unrestricted resources in previous fiscal years. According to the grant award, sign-in sheets maintained by nonprofit entity personnel, and periodic invoices submitted, the entity provided citizenship building curriculum services to students at nine District schools. However, District records did not evidence independent verification by District employees with direct knowledge that the services were provided and the Board had not approved a written contract for these services to establish the terms and conditions of the arrangement. Without contracts to define the job responsibilities of contractors that provide services to students, and documented evidence that contracted services are received consistent with District expectations and prior to payment, there is an increased risk that services may not be consistent with District intent and Federal regulations, and for errors or fraud to occur. Further, without independent verification by District personnel that the citizenship building curriculum services were received, the \$40,300 payment represents questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance procedures to ensure that it enters into written contracts for services that contain required Federal provisions, including adequate descriptions of the District's expectations, and District personnel with direct knowledge of the contracted services confirm and document that the services were provided prior to payment. In addition, the District should document to the grantor (FDOE) the allowability of the \$40,300 of questioned costs for citizenship building curriculum services or restore this amount to the ARRA-State Fiscal Stabilization Fund Cluster programs.

District Contact Person: Rhonda Odom, Chief Financial Officer

Federal Awards Finding No. 3:

Federal Agency: United States Department of Education

Federal Direct Program: Teacher Incentive Fund (CFDA No. 84.374)

Award Number: S374A100033

Pass-Through Entity: Florida Department of Education

Pass-Through Programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); State Fiscal Stabilization Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); and Education Jobs Fund (CFDA No. 84.410)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Unknown

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

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

During the 2008-09 fiscal year, the District transferred net assets of the internal service fund totaling \$2,464,721 to the General Fund and did not make a determination of the portion that should be credited to Federal programs. During the 2009-10 fiscal year, the District used \$663,075 of the \$2,464,721 to pay employee benefit health insurance premiums and, as of June 30, 2010, the District held the remaining \$1,801,646 in an insurance reserve within the General Fund. During the 2010-11 fiscal year, the District used \$335,000 to pay employee benefit health insurance premiums and, of the remaining \$1,466,646, \$537,609 was used to fund employee step raises and longevity bonuses and \$929,037 remained in the account. The \$663,075 and \$335,000 (total of \$998,075) used to pay employee benefit health insurance premiums effectively refunded the appropriate share of the premiums to the Federal programs; however, District personnel had not made a determination of the portion attributable to Federal programs for the remaining \$1,466,646 in premium costs previously charged or made a determination of the interest earned on the \$2,464,721 from the date of transfer that was attributable to the Federal programs. Without such a determination,

District records do not evidence that applicable refunds were made to the Federal Government for its share of the funds transferred, contrary to OMB Circular A-87. Similar findings were noted in our previous audit reports, most recently in our report No. 2011-162.

Recommendation: The District should make a determination of the amount that should be credited to Federal programs for the \$1,466,646 in premium costs previously charged and the interest earned on the \$2,464,721 from the date of transfer, and submit the applicable financial reports to the FDOE to effect such transfers.

District Contact Person: Rhonda Odom, Chief Financial Officer

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2011-162.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*PUTNAM 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
2010-152 (1) 2011-162 (1)	Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Education Technology State Grants (CFDA No. 84.318); Improving Teacher Quality State Grants (CFDA No. 84.367); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Allowable Costs/Cost Principles - Transfer of Insurance Program Assets	The District transferred medical insurance funds, totaling \$2.5 million, from an internal service fund to the General Fund during the 2008-09 fiscal year, and no determination has been made of the portion that should be credited to the Federal programs.	Not corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



March 20, 2012

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

Dear Mr. Martin:

Attached is our response to the preliminary and tentative audit findings and recommendations for the Putnam County School District for the fiscal year ended June 30th, 2011.

My staff and I appreciate your efforts to assist us in improving our operations and we appreciate the professionalism of the auditors assigned to our audit.

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

Sincerely,



Thomas D. Townsend
Superintendent of Schools

Tom Townsend
Superintendent

Nikki Cummings
District I

Terry Wright
District II

Lisa Parsons
District III

C. L. Overturf, Jr.
District IV

Kathy Jorgensen
District V

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 1: Financial Reporting

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

Response: The District will strengthen its preparation and review of the annual financial statements in order to ensure accuracy in reporting.

Finding No. 2: Bank Account Reconciliations

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

Response: All accounts, with the exception of one, are reconciled to date. Great strides have been made in the Payroll Bank Account Reconciliation with the problem narrowed down to the way we currently handle retirement payments through an Accounts Payable process. As of today's date, the unreconciled difference through June 2011 is \$21,697.73. Now that we know what has been causing our problem, we are reconciling as quickly as we can. We expect as we reconcile each month, this difference to get smaller and smaller, and be nonexistent once the February 2012 account is reconciled.

Finding No. 3: Ad Valorem Taxation

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the questioned costs totaling \$908,220 or restore these costs to the LCI Fund. The District should also take appropriate action to transfer the accumulated ad valorem tax levy proceeds accounted for in the General Fund, totaling \$878,403, and the interest earned thereon, to the respective LCI Fund maintained by fiscal year tax levy.

Response: For the first matter of questioned costs of \$908,220, of which \$426,128 of that was for insurance premiums for property and casualty insurance necessary to insure school district educational and ancillary plants, we will document the allowability of the transfer. Chapter 2011-55, Laws of Florida, provides that the Commissioner of the Florida Department of Education may waive compliance with Section 1011.71, Florida Statutes, if a district acted in good faith for payment of premiums for property insurance and casualty insurance premiums made prior to January 1, 2011. We paid our premiums well before that date through the General Fund. The transfer from capital occurred after January 1st, but the payment occurred before. We believe we acted in good faith. Our adopted budget showed the payments would be made from the General Fund and the transfer to cover the payments would come from the LCI fund. The legislation only states that the "expenditure" had to be before that date and the expenditure occurred before then. There is a notable difference between the words expenditure and transfer of funds. Our board attorney will pursue the matter with FDOE.

For the remainder of the questioned costs of \$482,092 for operation and maintenance of plant expenditures, we continued to completely fund our maintenance department via a transfer from the LCI fund. That practice has been in place for as long as I can go back in the records; nothing in our methodology has changed over the years. When we had questions on whether an item was allowable or not, we sought

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

guidance. We have always funded our secretaries and clerks as they are instrumental in coordinating the activities of the employees in the maintenance and repair of our facilities through work orders, etc. As you are questioning us using the \$100 per unweighted FTE for payment of property insurance and saying it was unallowable because it was done after the date allowed, you shouldn't also be questioning the purchase of \$51,270 of motor vehicles. If you say the first is unallowable because of the date of the transfer, then the second one would easily fit within the \$100 maximum per FTE because there was not a date timeline associated with the purchase of vehicles. The other questioned costs of tree trimming, carpet cleaning and pest control should fit within the broad category of "maintenance, renovation, or repair." Pest control is a necessary maintenance expense that maintains the upkeep of our buildings in the prevention of termite damage, etc. The travel expenses were for training of maintenance personnel in asbestos classes, asbestos recertification, backflow prevention certification, etc., all necessary expenses to keep our maintenance department personnel up to date in the proper manner to handle their duties of maintaining our facilities. We believe most of the items you have listed are allowable expenditures. We will address this issue further with FDOE. We certainly had huge expenditures for capital outlay purposes in our General Fund that could have instead been paid for with capital LCI funds and we will request that that knowledge be taken into account when the finding is resolved.

For your second bullet regarding ad valorem tax levy proceeds accounted for in the General Fund and the recommendation that the amount of \$878,403 and the interest earned thereon, should be transferred back to the respective LCI funds maintained by fiscal year, we maintain that as the money is in the General Fund in a reserve for capital project capacity, it is being properly accounted for. In the current fiscal year, we will transfer \$878,403 less from LCI than is spent for covering the costs of operating our Maintenance Department and operation of plant costs, thereby wiping out the ad valorem tax levy proceeds currently accounted for in the General Fund.

This entire finding will be researched further with NEFEC, FDOE, and General Counsel. If necessary, funds will be restored to the LCI funds.

Finding No. 4: Electronic Funds Transfer

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. In addition, the District should ensure appropriate separation of duties of initiating and authorizing EFT's.

Response: The District has contracted with North East Ohio Learning Associates (NEOLA®) to complete a massive overhaul of our policies. We have chosen a NEOLA® policy number 6100 regarding EFT's which will be board approved as soon as the NEOLA® process is complete. The District has many controls in place regarding EFTs and maintains proper segregation of duties. Each user has a unique log on identify and security password, as well as a security token validation code that changes each time the user signs on (VeriSign gadget). The CFO is notified via email any time an EFT is initiated and verifies the authenticity of the EFT. The CFO's home page of Capital City Bank shows all ACH's and wire transfers that have occurred since the last log on.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 5: Performance Assessments

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

Response: It is agreed the District did not have a weighted metric associated with the student performance/student achievement criteria on the adopted Instructional or School-Based Administrator Evaluation Instrument during the 2010-2011 school year. In the absence of this metric, evaluators utilized the student performance data of students assigned to a given teacher or school-based administrator as the primary consideration in arriving at a final overall performance rating for teachers and school-based administrators during the 2010-2011 school year.

Noting the need for this weighting to be clearly evidenced in the District's Instructional and School-Based Administrator Evaluation Process going forward, the District has revised and adopted compliant Evaluation Instruments and Procedures to appropriately weight the student achievement/performance assigned to teachers and school-based administrators for use in their annual evaluations (also now compliant with Federal and State Race-to-the-Top requirements).

Finding No. 6: Compensation and Salary Schedules

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

Response: Procedures have now been established that will ensure a portion of each teacher and school administrator's annual compensation will be based upon the overall performance indicated on their previous year's final evaluation. Likewise, differentiated pay guidelines for both teachers and school-based administrators have been listed for appropriate use going forward on all applicable salary schedules.

Finding No. 7: Salary Adjustments and Bonuses

Recommendation: District procedures should be enhanced to ensure that personnel records clearly evidence the basis upon which salary adjustments and bonuses are approved by the Superintendent.

Response: The District did follow its process for setting the annual salary of administrative personnel based upon the salary ranges approved by the Board for such Support Personnel (which includes all administrators). Bonuses to selected administrators were awarded for other duties assigned or for recognition of exceptional performance. Going forward, the justification for such awards or adjustments will be clearly indicated in correspondence from the Superintendent to payroll personnel making said adjustments.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 8: Compensation for Additional Work

Recommendation: The Board should adopt formal written policies and procedures addressing additional compensation to ensure such compensation is necessary, reasonable, and timely approved and submitted for payment.

Response: The District's practice regarding additional work assignments and the compensation thereof has been to delegate to the supervisor or principal of individual schools or sites because their discretionary budgets differ as do their specific work needs. Because of these funding and work needs differences among sites and schools, such work and compensation for these additional activities has varied and has been sustained through past audits for well over 20 years. Through the policy and procedures self-study process the District is currently engaged in with NEOLA® of Florida, "procedures governing the authorization, review, approval, and compensation for such additional work" will be developed and are expected to be approved by the School Board during the summer of 2012.

Finding No. 9: Adult General Education Classes

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 hours misreported and contact FDOE for proper resolution.

Response: The Adult Education Department has made several improvements to ensure accurate reporting of student instructional contact hours. The District will contact FDOE to resolve the misreported hours.

Finding No. 10: Information Technology – Security Incident Response Plan

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

Response: The District has taken the recommendation from the Audit Team and will develop its own security incident response plan which will be added to the existing security incident response procedure. The District will also work with NEFEC to develop an appropriate security incident response plan as they are the District's Data Center.

Finding No. 11: Information Technology – Access Privileges

Recommendation: The District should review the appropriateness of NRIC employees' access privileges to the financial application and restrict access privileges to enforce an appropriate separation of IT and end-user duties. The District should also establish written policies and procedures providing for routine monitoring of the financial application security logs to detect improper or unauthorized activity.

Response: The District has taken the recommendation from the Audit Team and has asked the NRIC management to review those employees of their team which have system wide access. In addition the District will develop procedures for monitoring application security logs to detect improper or unauthorized activity.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Finding No. 1

Recommendation: The District should enhance its procedures to ensure that Federal program expenditures are only for allowable grant purposes, and charges are properly approved, documented and supported. In addition, the District should document to the grantor (FDOE) the allowability of questioned costs of \$173,433 and \$7,000 for the Title I and the Twenty-First Century programs, respectively, and to the grantor (United States Department of Education) the allowability of questioned costs of \$59,252 for the TIF program.

Response: In regards to the \$59,252 of questioned costs for the TIF program, the District has refunded the TIF grant for the cost of the digital multi-function copier and printer totaling \$53,700.

For the remaining questioned TIF grant expenditures, the documentation of the Board's direction to pay Pragmatim was approved at the December 7, 2010 meeting. The Board approved \$85/hour for this contractor because they recognize the nature and scope of the work, which was approved by USDOE in the original TIF application, merited additional compensation. Hours billed by Pragmatim and documentation of deliverables were determined to be reasonable, necessary and adequately documented by review of the Associate Superintendent for Support Services who signed off on the invoices matched against previous board approval for such services. The District will document the allowability of the expenditures to FDOE.

Title I funds in the amount of \$168,950 were used for the purchase of training, software and materials relating to the District's revised employee performance evaluation system, as required by Race to the Top and approved by FDOE, in an effort to enhance the academic performance of students by improving the instructional practice of teachers throughout all of our schools. Because our district is designated as a District in Need of Improvement, a large portion of the Title I supplemental funds must be dedicated for the development of instructional practice through professional development activities. The training, software and materials purchased with these funds provide for appropriate, timely, individualized and developmental feedback which is causally related to improved instructional practices that lead to improved academic performance of our students.

The district believes we have provided adequate documentation regarding the questioned costs of \$3,832 for services provided by the Success for All Foundation. Although our system for tracking the services received relied upon self-reporting of the vendor through follow-up documentation, the district has developed a more verifiable tracking process for future use. The services in question were received. The District will document the allowability of the expenditures to FDOE.

For the questioned costs of \$7,000 for the 21st Century grants, updated award letters show the revised amount for evaluation services. Therefore, the District will document to FDOE the allowability of the expenditures.

Federal Awards Finding No. 2

Recommendation: The District should enhance procedures to ensure that it enters into written contracts for services that contain required Federal provisions, including adequate descriptions of the District's expectations, and District personnel with direct knowledge of the contracted services confirm and document that the services were provided prior to payments. In addition, the District should document to the grantor

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

(FDOE) the allowability of the \$40,300 of questioned costs for citizenship building curriculum services or restore this amount to the ARRA-State Fiscal Stabilization Fund Cluster programs.

Response: For many years, we have been a pass through entity to provide funds from FDOE to the Boys Scouts of America for their Learning for Life program. These are funds that come in to the District and are immediately sent on to the Boy Scouts of America, with the District being a conduit to get the funds to the Boy Scout organization. The Boy Scouts of America then sends quarterly reports to FDOE. This year the funds came in the form of ARRA-State Fiscal Stabilization dollars, but they were still earmarked as belonging to the Boy Scout organization. The District will document to the grantor (FDOE) the allowability of providing the funds to the Boys Scouts of America.

Federal Awards Finding No. 3

Recommendation: The District should make a determination of the amount that should be credited to Federal programs for the \$1,466,646 in premium costs previously charged and the interest earned on the \$2,464,721 from the date of transfer, and submit the applicable financial reports to the FDOE to effect such transfers.

Response: The District dealt with FDOE to determine how to handle this situation. FDOE accepted our moving of the group insurance fund balance into the General Fund in a fund balance reserve. They determined that what we needed to do was to determine an amount of interest earned on the amounts that were borrowed in FY 2008/2009 up until the time the amounts were paid back on 6/30/2009 and 6/30/2010. We made that determination; FDOE accepted it, and a check was cut to FDOE on 8/11/2011, check #297299 as accumulated interest attributable to the transfer. The District will document to FDOE the allowability of using some of the funds in fiscal year 2010-2011 to provide step raises and the methodology used to determine interest allocated.