

**JEFFERSON 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>
Edward W. Vollertsen	1
Sandra G. Saunders, Chair to 11-15-10	2
Shirley Alexander Washington, Vice Chair to 11-15-10, Chair from 11-16-10	3
Marianne Arbulu, Vice Chair from 11-16-10	4
Charles P. Boland	5

William E. Brumfield, 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 Stacy P. Boyd, and the audit was supervised by Cheryl B. Pueschel, 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.

JEFFERSON 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	9
Statement of Activities	10
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	19
Notes to Financial Statements	20
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	38
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	40
Notes to Required Supplementary Information.....	41
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	42
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>	43
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	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	63
EXHIBIT A MANAGEMENT'S RESPONSE	64

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 a significant deficiency, as summarized below.

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

MATERIAL 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: Improvements were needed in the bank account reconciliation process.

ADDITIONAL MATTERS

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

Finding No. 4: The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 5: Controls over electronic funds transfers could be enhanced.

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

Finding No. 7: The District could enhance controls over the issuance of student diplomas.

Finding No. 8: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 9: The District's IT disaster recovery plan lacked key disaster recovery control elements and had not been tested.

Finding No. 10: The District needed to improve IT security controls related to network and application access and authorization.

Finding No. 11: The District had not implemented a comprehensive IT security awareness training program.

Finding No. 12: The District did not have a written IT security incident response plan.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; School Improvement Grants Cluster; 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 Special Education Cluster programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: District procedures did not ensure that all teachers hired to teach core academic subjects in Title I schoolwide schools were highly qualified, resulting in \$76,587 of questioned costs.

Federal Awards Finding No. 2: The District did not adequately document charges to the Special Education program for coordinated early intervention services, resulting in \$67,780 of questioned costs.

Federal Awards Finding No. 3: District records did not evidence that District personnel verified that certain contracted services were provided to program eligible students before payments were made, resulting in \$56,606 of questioned costs.

Federal Awards Finding No. 4: District records did not evidence that the District met the maintenance of effort requirement for the Title I program.

Federal Awards Finding No. 5: Required documentation to support personnel charges totaling \$208,267 and \$25,417 for the Title I and Special Education programs, respectively, were not maintained, contrary to Federal regulations.

Federal Awards Finding No. 6: Controls over monitoring and reporting of Federal cash balances and expenditures could be enhanced to ensure amounts reported to the Florida Department of Education are reconciled to the District's accounting records on a timely basis.

Audit Objectives and Scope

Our audit objectives were to determine whether the Jefferson 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. 2011-154.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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, each major fund, and the aggregate remaining fund information of the Jefferson 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 16 percent of the assets and 87 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report 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 report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Jefferson County District School Board as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the CARE Charter School of Excellence, Inc. (Charter School), has been reported as a discretely presented component unit in prior fiscal years; however, the Charter School terminated on August 23, 2010, and, therefore, is not reported for the 2010-11 fiscal year. This affects the comparability of amounts reported for the 2010-11 fiscal year with amounts reported for the 2009-10 fiscal year.

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$1,280,573.10 over the 2009-10 fiscal year end balances.
- At June 30, 2011 the unrestricted net assets deficit is \$152,794.42 compared to a deficit of \$1,349,136.27 at June 30, 2010.
- General revenues total \$12,162,302.65. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$1,150,928.15.
- Expenses total \$12,032,657.70. Only \$1,150,928.15 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$1,280,573.10.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$1,163,608.20, at June 30, 2011, while the total fund balance was \$1,371,829.36.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government'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.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and

State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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 two 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 – Other Fund, Special Revenue Fund – Federal Economic Stimulus Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund, the Special Revenue – Other Fund, and the Special Revenue – Federal Economic Stimulus Fund, to demonstrate compliance with the budget.

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-11	6-30-10
Current and Other Assets	\$ 3,101,154.23	\$ 2,851,065.72
Capital Assets	<u>29,254,741.70</u>	<u>29,290,060.37</u>
Total Assets	<u>32,355,895.93</u>	<u>32,141,126.09</u>
Long-Term Liabilities	1,768,872.65	2,306,186.79
Other Liabilities	<u>386,010.88</u>	<u>914,500.00</u>
Total Liabilities	<u>2,154,883.53</u>	<u>3,220,686.79</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	28,942,102.13	28,719,714.67
Restricted	1,411,704.69	1,549,860.90
Unrestricted (Deficit)	<u>(152,794.42)</u>	<u>(1,349,136.27)</u>
Total Net Assets	<u>\$ 30,201,012.40</u>	<u>\$ 28,920,439.30</u>

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

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 103,507.51	\$ 94,996.78
Operating Grants and Contributions	863,842.32	637,856.54
Capital Grants and Contributions	183,578.32	202,389.73
General Revenues:		
Property Taxes, Levied for Operational Purposes	3,612,130.81	3,806,374.41
Property Taxes, Levied for Capital Projects	868,619.11	907,789.92
Grants and Contributions Not Restricted to Specific Programs	7,222,091.00	7,305,786.10
Unrestricted Investment Earnings	20,863.38	40,230.56
Miscellaneous	438,598.35	552,464.91
Total Revenues	13,313,230.80	13,547,888.95
Functions/Program Expenses:		
Instruction	5,499,844.53	6,273,623.10
Pupil Personnel Services	211,850.17	261,616.58
Instructional Media Services	93,594.98	97,517.68
Instruction and Curriculum Development Services	360,171.85	616,523.71
Instructional Staff Training Services	152,095.60	55,420.66
Instruction Related Technology	169,597.04	140,242.97
School Board	314,483.27	254,097.25
General Administration	518,800.77	505,471.60
School Administration	530,817.08	532,298.44
Facilities Acquisition and Construction	158,078.42	190,768.66
Fiscal Services	260,856.62	295,989.66
Food Services	617,404.41	556,863.93
Central Services	37,529.55	26,082.33
Pupil Transportation Services	939,678.39	852,168.69
Operation of Plant	1,050,293.44	988,278.78
Maintenance of Plant	197,126.81	270,442.42
Administrative Technology Services	105,922.44	75,535.53
Community Services	34.98	
Unallocated Interest on Long-Term Debt	26,134.69	51,953.46
Unallocated Depreciation Expense	788,342.66	1,068,228.71
Total Functions/Program Expenses	12,032,657.70	13,113,124.16
Increase in Net Assets	\$ 1,280,573.10	\$ 434,764.79

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. Other State revenues are primarily for categorical and other earmarked educational programs and for the acquisition, construction, and maintenance of educational facilities. The increase in net assets for the 2010-11 fiscal year of \$1,280,573.10, compared to \$434,764.79 for the 2009-10 fiscal year, was due primarily to a decrease in instruction expenses because of staff reductions.

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 \$1,163,608.20, while the total fund balance is \$1,371,829.36. Total fund balance increased by \$922,095.17 during the fiscal year primarily as a result of reductions in staff and other operating costs. Total revenues and other financing sources did not significantly change from the prior fiscal year.

The Special Revenue Fund – Other (SRO) Fund is used to account for Federal grant programs and allowed expenditures are specified by grant agreements. For the SRO Fund, total revenues and expenditures were \$1,676,407.91 each during the fiscal year. Also, the Special Revenue – Federal Economic Stimulus Fund was used primarily to finance instructional staff salaries, and total revenues and expenditures were \$1,192,574.38 each during the fiscal year. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these funds generally do not accumulate fund balances.

The Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund have total fund balances of \$275,198.65, \$611,090.08, and \$156,145.80, respectively, which are restricted for the acquisition, construction, and maintenance of capital assets. The fund balances of these three major capital projects funds in total decreased primarily for various maintenance and repair project expenditures.

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 for the decrease in State revenues caused by declining enrollment. At the same time, original appropriations exceeded the final budgeted amounts by \$903,291.96 as expenditure budgets were reduced to compensate for decreased enrollment. There were no significant variances between final budget and actual amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$29,254,741.70 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

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

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of \$312,639.57 for the governmental activities, comprised of \$117,639.57 of installment-purchases payable and \$195,000.00 of bond payables. During the fiscal year, the District retired \$257,706.13 of debt.

Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

While the District’s financial condition has improved, it is still facing uncertain economic times. The impact of pending budget reductions at the State level remains unknown at this time. Accordingly, the Board must continue to be vigilant in monitoring the District’s resources to meet the demands of a public education system. Plans have been developed to contend with these financial uncertainties, including instituting a hiring freeze for all nonessential positions, consolidating bus routes, eliminating educational programs not mandated by the Florida Department of Education, eliminating nonessential equipment purchases, and reducing all nonessential travel.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Jefferson County District School Board’s finances. Questions concerning information provided in this report or request for additional financial information should be addressed to the Chief Financial Officer, Jefferson County District School Board, 575 South Water Street, Monticello, Florida 32344.

BASIC FINANCIAL STATEMENTS

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

		<u>Primary Government Governmental Activities</u>
ASSETS		
Cash and Cash Equivalents	\$	2,282,484.44
Taxes Receivable		57,048.46
Due from Other Agencies		605,509.86
Investments		86,469.17
Inventories		69,642.30
Capital Assets:		
Nondepreciable Capital Assets		1,004,889.14
Depreciable Capital Assets, Net		28,249,852.56
TOTAL ASSETS	\$	<u>32,355,895.93</u>
LIABILITIES		
Payroll Deductions and Withholdings	\$	118,702.59
Accounts Payable		121,802.04
Due to Other Agencies		31,553.13
Deferred Revenue		113,953.12
Long-Term Liabilities:		
Portion Due Within One Year		216,273.96
Portion Due After One Year		1,552,598.69
Total Liabilities		<u>2,154,883.53</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		28,942,102.13
Restricted for:		
State Required Carryover Programs		5,366.71
Debt Service		4,993.41
Capital Projects		1,177,407.06
Food Service		160,913.52
Other Purposes		63,023.99
Unrestricted		(152,794.42)
Total Net Assets		<u>30,201,012.40</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>32,355,895.93</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 5,499,844.53	\$ 1,028.06	\$	\$	\$ (5,498,816.47)
Pupil Personnel Services	211,850.17				(211,850.17)
Instructional Media Services	93,594.98				(93,594.98)
Instruction and Curriculum Development Services	360,171.85				(360,171.85)
Instruction Staff Training Services	152,095.60				(152,095.60)
Instruction Related Technology	169,597.04				(169,597.04)
School Board	314,483.27				(314,483.27)
General Administration	518,800.77				(518,800.77)
School Administration	530,817.08				(530,817.08)
Facilities Acquisition and Construction	158,078.42			182,470.51	24,392.09
Fiscal Services	260,856.62				(260,856.62)
Food Services	617,404.41	68,956.31	561,358.32		12,910.22
Central Services	37,529.55				(37,529.55)
Pupil Transportation Services	939,678.39	33,523.14	302,484.00		(603,671.25)
Operation of Plant	1,050,293.44				(1,050,293.44)
Maintenance of Plant	197,126.81				(197,126.81)
Administrative Technology Services	105,922.44				(105,922.44)
Community Services	34.98				(34.98)
Unallocated Interest on Long-Term Debt	26,134.69			1,107.81	(25,026.88)
Unallocated Depreciation Expense*	788,342.66				(788,342.66)
Total Governmental Activities	\$ 12,032,657.70	\$ 103,507.51	\$ 863,842.32	\$ 183,578.32	(10,881,729.55)
General Revenues:					
Taxes:					
					3,612,130.81
					868,619.11
					7,222,091.00
					20,863.38
					438,598.35
Total General Revenues					12,162,302.65
Change in Net Assets					1,280,573.10
Net Assets - Beginning					28,920,439.30
Net Assets - Ending					\$ 30,201,012.40

* 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.

THIS PAGE INTENTIONALLY LEFT BLANK.

**JEFFERSON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS				
Cash and Cash Equivalents	\$ 919,148.44	\$ 271,944.28	\$ 83,786.54	\$ 69,961.67
Taxes Receivable	34,004.04			
Due from Other Funds	280,832.52	21,759.33		
Due from Other Agencies	252,297.67		12,185.29	196,129.00
Investments	50,305.78	4,942.79		9,107.98
Inventories	50,069.57			
TOTAL ASSETS	\$ 1,586,658.02	\$ 298,646.40	\$ 95,971.83	\$ 275,198.65
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 97,375.46	\$ 15,491.76	\$ 21,327.13	\$
Accounts Payable	64,240.74	242,430.31	29,842.70	
Due to Other Funds	21,759.33	42,214.21		
Due to Other Agencies	31,453.13	100.00		
Deferred Revenue		40,624.33	2,587.79	
Total Liabilities	214,828.66	298,646.40	95,971.83	
Fund Balances:				
Nonspendable:				
Inventory	50,069.57			
Other Not in Spendable Form	50,305.78			9,107.98
Total Nonspendable Fund Balance	100,375.35			9,107.98
Restricted for:				
State Required Carryover Programs	5,366.71			
Local Sales Tax and Other Tax Levy	63,023.99			
Food Service				
Debt Service				
Capital Projects				266,090.67
Total Restricted Fund Balance	68,390.70			266,090.67
Assigned to Budget Carryforwards	39,455.11			
Unassigned Fund Balance	1,163,608.20			
Total Fund Balances	1,371,829.36			275,198.65
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,586,658.02	\$ 298,646.40	\$ 95,971.83	\$ 275,198.65

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 596,547.74 23,044.42	\$ 75,841.24 4,539.69 141,482.00 5,023.87	\$ 265,254.53 3,812.00 3,415.90 17,088.75 19,572.73	\$ 2,282,484.44 57,048.46 310,943.54 605,509.86 86,469.17 69,642.30
<u>\$ 619,592.16</u>	<u>\$ 226,886.80</u>	<u>\$ 309,143.91</u>	<u>\$ 3,412,097.77</u>
\$ 3,962.39 4,539.69	\$ 70,741.00	\$ 8,264.45	\$ 118,702.59 121,802.04 310,943.54 31,553.13 113,953.12
<u>8,502.08</u>	<u>70,741.00</u>	<u>8,264.45</u>	<u>696,954.42</u>
	5,023.87 <u>5,023.87</u>	19,572.73 12,095.34 <u>31,668.07</u>	69,642.30 76,532.97 <u>146,175.27</u>
611,090.08 <u>611,090.08</u>	151,121.93 <u>151,121.93</u>	141,306.77 4,993.41 122,911.21 <u>269,211.39</u>	5,366.71 63,023.99 141,306.77 4,993.41 1,151,213.89 <u>1,365,904.77</u> 39,455.11 <u>1,163,608.20</u>
<u>611,090.08</u>	<u>156,145.80</u>	<u>300,879.46</u>	<u>2,715,143.35</u>
<u>\$ 619,592.16</u>	<u>\$ 226,886.80</u>	<u>\$ 309,143.91</u>	<u>\$ 3,412,097.77</u>

JEFFERSON 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 \$ 2,715,143.35

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 29,254,741.70

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:

Installment-Purchases Payable	\$ 117,639.57	
Bonds Payable	195,000.00	
Other Postemployment Benefits Payable	331,218.00	
Compensated Absences Payable	<u>1,125,015.08</u>	<u>(1,768,872.65)</u>

Total Net Assets - Governmental Activities **\$ 30,201,012.40**

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

THIS PAGE INTENTIONALLY LEFT BLANK.

**JEFFERSON 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 - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 69,782.32	\$	\$	\$
Federal Through State and Local State	16,069.61 4,570,248.59	1,676,407.91	1,192,574.38	109,232.00
Local:				
Property Taxes	3,612,130.81			
Charges for Services - Food Service Miscellaneous	422,468.79			2,647.22
Total Revenues	8,690,700.12	1,676,407.91	1,192,574.38	111,879.22
Expenditures				
Current - Education:				
Instruction	3,961,329.86	1,081,016.08	621,150.26	
Pupil Personnel Services	178,239.10	38,408.60	2,361.78	
Instructional Media Services	95,355.14	1,403.07		
Instruction and Curriculum Development Services	33,766.23	126,762.65	212,525.67	
Instructional Staff Training Services	7,815.74	140,752.20	7,822.38	
Instruction Related Technology	167,415.99		6,772.00	
School Board	319,669.10			
General Administration	326,743.88	166,578.73	37,397.87	
School Administration	549,219.94			
Facilities Acquisition and Construction				
Fiscal Services	269,229.32			
Food Services	4,861.76	4,295.22	3,812.00	
Central Services	26,020.56	8,370.14	3,180.00	
Pupil Transportation Services	833,138.75	65,433.41		
Operation of Plant	974,391.97	791.31		
Maintenance of Plant	186,305.18			
Administrative Technology Services	108,354.70			
Community Services	34.98			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	1,450.00			137,309.72
Other Capital Outlay		42,596.50	297,552.42	
Debt Service:				
Principal				
Interest and Fiscal Charges	1,161.75			
Total Expenditures	8,044,503.95	1,676,407.91	1,192,574.38	137,309.72
Excess (Deficiency) of Revenues Over Expenditures	646,196.17			(25,430.50)
Other Financing Sources (Uses)				
Transfers In	200,000.00			1,075.00
Proceeds from Sale of Capital Assets	26,051.00			
Insurance Loss Recoveries	49,848.00			
Transfers Out				
Total Other Financing Sources (Uses)	275,899.00			1,075.00
Net Change in Fund Balances	922,095.17			(24,355.50)
Fund Balances, Beginning	449,734.19			299,554.15
Fund Balances, Ending	\$ 1,371,829.36	\$ 0.00	\$ 0.00	\$ 275,198.65

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		544,953.32	69,782.32
		90,243.51	3,430,005.22
868,619.11			4,769,724.10
1,684.51	1,986.94	68,956.31	4,480,749.92
		1,598.14	68,956.31
			430,385.60
<u>870,303.62</u>	<u>1,986.94</u>	<u>705,751.28</u>	<u>13,249,603.47</u>
			5,663,496.20
			219,009.48
			96,758.21
			373,054.55
			156,390.32
			174,187.99
			319,669.10
			530,720.48
136,130.50			549,219.94
			136,130.50
			269,229.32
		613,702.76	626,671.74
			37,570.70
			898,572.16
81,727.00			1,056,910.28
14,627.06			200,932.24
			108,354.70
			34.98
99,084.51	268,177.98		506,022.21
			340,148.92
212,706.13		45,000.00	257,706.13
12,633.01		12,339.93	26,134.69
<u>556,908.21</u>	<u>268,177.98</u>	<u>671,042.69</u>	<u>12,546,924.84</u>
<u>313,395.41</u>	<u>(266,191.04)</u>	<u>34,708.59</u>	<u>702,678.63</u>
			201,075.00
			26,051.00
			49,848.00
<u>(201,075.00)</u>			<u>(201,075.00)</u>
<u>(201,075.00)</u>			<u>75,899.00</u>
112,320.41	(266,191.04)	34,708.59	778,577.63
498,769.67	422,336.84	266,170.87	1,936,565.72
<u>\$ 611,090.08</u>	<u>\$ 156,145.80</u>	<u>\$ 300,879.46</u>	<u>\$ 2,715,143.35</u>

**JEFFERSON 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 \$ 778,577.63

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (23,047.00)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (12,271.67)

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

Installment-Purchases Payable	\$ 212,706.13	
Bonds Payable	<u>45,000.00</u>	257,706.13

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 (earned) in excess of the amount earned (paid) in the current fiscal year. 278,600.01

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 decrease in the other postemployment benefits liability for the current fiscal year. 1,008.00

Change in Net Assets - Governmental Activities \$ 1,280,573.10

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 57,117.00
TOTAL ASSETS	<u>\$ 57,117.00</u>
LIABILITIES	
Accounts Payable	\$ 9,017.00
Internal Accounts Payable	<u>48,100.00</u>
TOTAL LIABILITIES	<u>\$ 57,117.00</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Jefferson 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 Jefferson 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 Jefferson 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, no component units are included within the District's reporting entity.

The CARE Charter School of Excellence, Inc. (Charter School), has been reported as a discretely presented component unit in prior fiscal years; however, the Charter School terminated on August 23, 2010, and, therefore, is not reported for the 2010-11 fiscal year. The Board met and voted to immediately terminate the charter of the Charter School for failing to comply with the requirements of the Jessica Lunsford Act and failure to meet generally accepted standards of fiscal management. The State Board of Education, on December 17, 2010, denied an appeal by the Charter School of the Board's decision.

➤ **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 District's nonfiduciary financial activity.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is reported as unallocated.

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Services Fund to be used for educational capital outlay needs, including new construction, remodeling, renovation, maintenance, repairs, and site improvements.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments for the District’s installment-purchases.
- Capital Projects – Other Fund – to account for the financial resources generated by various State and local sources, including Classrooms First and Class Size Reduction Construction.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available

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

if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

➤ **Deposits and Investments**

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

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

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

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Fixed Equipment	50 years
Improvements Other than Buildings	10 - 35 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

In the governmental fund financial statements, 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 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.

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

Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

➤ **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 13, 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 Jefferson 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.

**JEFFERSON 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	\$ 68,294.83
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	81,475.76
Debt Service Accounts	6 Months	4,993.41
Total Investments		<u>\$ 154,764.00</u>

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

Interest Rate Risk

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

**JEFFERSON 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 a transaction will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit the District's investment choices.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 992,276.14	\$	\$	\$ 992,276.14
Construction in Progress	12,613.00			12,613.00
Total Capital Assets Not Being Depreciated	1,004,889.14			1,004,889.14
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	944,582.81			944,582.81
Buildings and Fixed Equipment	36,081,940.62	453,935.67		36,535,876.29
Furniture, Fixtures, and Equipment	2,242,331.42	367,820.48	41,327.34	2,568,824.56
Motor Vehicles	1,694,982.86		58,905.00	1,636,077.86
Audio Visual Materials and Computer Software	382,826.74	2,467.06	3,497.50	381,796.30
Total Capital Assets Being Depreciated	41,346,664.45	824,223.21	103,729.84	42,067,157.82
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	935,222.84	989.35		936,212.19
Buildings and Fixed Equipment	9,169,802.45	684,151.85		9,853,954.30
Furniture, Fixtures, and Equipment	1,494,713.07	92,555.11	41,327.34	1,545,940.84
Motor Vehicles	1,132,159.85	58,927.55	46,633.33	1,144,454.07
Audio Visual Materials and Computer Software	329,595.01	10,646.35	3,497.50	336,743.86
Total Accumulated Depreciation	13,061,493.22	847,270.21	91,458.17	13,817,305.26
Total Capital Assets Being Depreciated, Net	28,285,171.23	(23,047.00)	12,271.67	28,249,852.56
Governmental Activities Capital Assets, Net	\$ 29,290,060.37	\$ (23,047.00)	\$ 12,271.67	\$ 29,254,741.70

The classes of property under installment agreements are presented in Note 6.

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 58,927.55
Unallocated	788,342.66
	788,342.66
Total Depreciation Expense - Governmental Activities	\$ 847,270.21

5. CHANGES IN SHORT-TERM DEBT

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 250,000.00	\$ 250,000.00	\$ 0
	0	250,000.00	250,000.00	0

Proceeds from the tax anticipation note were used as a working capital reserve in the General Fund as permitted under State and Federal tax laws.

6. INSTALLMENT-PURCHASE PAYABLE

The classes and amounts of property being acquired under installment-purchases are as follows:

	Asset Balances
Relocatable Classrooms	\$ 455,892.00
Modular Buildings	306,123.00
Security/Fire Alarm System	300,414.00
Total	\$ 1,062,429.00

Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2012	\$ 121,355.72	\$ 117,639.57	\$ 3,716.15
	121,355.72	117,639.57	3,716.15

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

The stated interest rates range from 4.580 to 4.705 percent.

7. 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	<u>\$ 195,000</u>	4.00 - 5.375	2015

The bonds were issued by the State Board of Education to finance capital outlay projects 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	\$ 54,862.50	\$ 45,000.00	\$ 9,862.50
2013	58,062.50	50,000.00	8,062.50
2014	55,375.00	50,000.00	5,375.00
2015	<u>52,687.50</u>	<u>50,000.00</u>	<u>2,687.50</u>
Total	<u>\$ 220,987.50</u>	<u>\$ 195,000.00</u>	<u>\$ 25,987.50</u>

8. 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					
Installment - Purchases Payable	\$ 330,345.70	\$	\$ 212,706.13	\$ 117,639.57	\$ 117,639.57
Bonds Payable	240,000.00		45,000.00	195,000.00	45,000.00
Compensated Absences Payable	1,403,615.09	395,607.05	674,207.06	1,125,015.08	53,634.39
Other Postemployment Benefits Payable	<u>332,226.00</u>	<u>77,181.00</u>	<u>78,189.00</u>	<u>331,218.00</u>	
Total Governmental Activities	<u>\$ 2,306,186.79</u>	<u>\$ 472,788.05</u>	<u>\$ 1,010,102.19</u>	<u>\$ 1,768,872.65</u>	<u>\$ 216,273.96</u>

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

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 280,832.52	\$ 21,759.33
Special Revenue:		
Other	21,759.33	242,430.31
Federal Economic Stimulus		42,214.21
Capital Projects:		
Local Capital Improvement		4,539.69
Other	4,539.69	
Nonmajor Governmental	3,812.00	
Total	\$ 310,943.54	\$ 310,943.54

The receivables and payables generally occurred during the normal course of District operations except that amounts due to the General Fund from other governmental funds were primarily for temporary loans. The amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 200,000.00	\$
Capital Projects:		
Public Education Capital Outlay	1,075.00	
Local Capital Improvement		201,075.00
Total	\$ 201,075.00	\$ 201,075.00

The transfers were primarily to reimburse the General Fund for facilities maintenance expenditures.

10. 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.

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

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

➤ **Nonspendable**

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

➤ **Restricted**

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

➤ **Committed**

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

➤ **Assigned**

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

➤ **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.

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

11. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 2,883,428.00
Categorical Educational Program - Class Size Reduction	1,095,895.00
Racing Commission Funds	223,250.00
Workforce Development Program	174,142.00
Gross Receipts Tax (Public Education Capital Outlay)	109,232.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	74,338.21
School Food Service	17,005.00
Miscellaneous	192,433.89
Total	<u>\$ 4,769,724.10</u>

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

12. 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	5.308	\$ 3,144,069.01
Basic Discretionary Local Effort	0.748	443,060.21
Critical Operating Needs	0.250	148,081.62
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	888,489.74
 Total	<u>7.806</u>	<u>\$ 4,623,700.58</u>

13. 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

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

(DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
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 \$667,274.12, \$565,152.96, and

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

\$550,127.81, respectively, which were equal to the required contributions for each fiscal year. There were 15 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$70,501.39.

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.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through 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, 25 retirees received other postemployment benefits. The District provided required contributions of \$78,189 toward the annual OPEB cost. Plan members receiving benefits contributed \$118,661, through their required contributions ranging from \$198 to \$423 per month for retiree-only coverage and from \$398 to \$831 for retiree and spouse coverage, depending on Medicare eligibility.

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 10 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:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 27,750
Amortization of Unfunded Actuarial Accrued Liability	69,837
Annual Required Contribution	97,587
Interest on Net OPEB Obligation	12,458
Adjustment to Annual Required Contribution	(32,864)
Annual OPEB Cost (Expense)	77,181
Contribution Toward the OPEB Cost	(78,189)
Decrease in Net OPEB Obligation	(1,008)
Net OPEB Obligation, Beginning of Year	332,226
Net OPEB Obligation, End of Year	\$ 331,218

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	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 339,047	50.50%	\$ 167,816
2009-10	352,683	53.38%	332,226
2010-11	77,181	101.31%	331,218

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$693,107, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$693,107 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$3,306,690, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 20.96 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 multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and to estimate the District's 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. This rate includes a general price inflation rate of 3 percent. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 2 percent beginning January 1, 2011, rising to 8.5 percent the following year, before falling 0.5 percent per year to an ultimate rate of 5 percent after nine years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, is 9 years.

15. 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. Encumbrances totaled \$39,455.11 at June 30, 2011, and were reported in the General Fund.

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

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

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

Employee group health and hospitalization coverage are being provided through purchased commercial insurance, with minimum deductibles for each line of coverage.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 58,250.00	\$ 69,782.32	\$ 69,782.32	\$
Federal Through State and Local	63,500.00	16,069.61	16,069.61	
State	4,694,619.00	4,569,511.59	4,570,248.59	737.00
Local:				
Property Taxes	3,608,055.00	3,554,474.77	3,612,130.81	57,656.04
Miscellaneous	385,500.00	370,388.79	422,468.79	52,080.00
Total Revenues	8,809,924.00	8,580,227.08	8,690,700.12	110,473.04
Expenditures				
Current - Education:				
Instruction	4,455,479.00	3,961,329.86	3,961,329.86	
Pupil Personnel Services	187,145.00	178,239.10	178,239.10	
Instructional Media Services	115,419.00	95,355.14	95,355.14	
Instruction and Curriculum Development Services	247,038.00	33,766.23	33,766.23	
Instructional Staff Training Services	1,165.00	7,815.74	7,815.74	
Instruction Related Technology	134,286.00	167,415.99	167,415.99	
School Board	253,662.00	319,669.10	319,669.10	
General Administration	389,294.00	326,748.97	326,743.88	5.09
School Administration	546,320.00	549,219.94	549,219.94	
Facilities Acquisition and Construction				
Fiscal Services	358,611.00	269,229.32	269,229.32	
Food Services		4,861.76	4,861.76	
Central Services	16,335.00	26,020.56	26,020.56	
Pupil Transportation Services	830,951.00	833,138.75	833,138.75	
Operation of Plant	977,624.00	974,391.97	974,391.97	
Maintenance of Plant	242,394.00	186,305.18	186,305.18	
Administrative Technology Services	182,578.00	108,354.70	108,354.70	
Community Services		34.98	34.98	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		1,450.00	1,450.00	
Other Capital Outlay				
Debt Service:				
Principal	9,500.00	1,161.75	1,161.75	
Total Expenditures	8,947,801.00	8,044,509.04	8,044,503.95	5.09
Excess (Deficiency) of Revenues Over Expenditures	(137,877.00)	535,718.04	646,196.17	110,478.13
Other Financing Sources (Uses)				
Transfers In	200,000.00	200,000.00	200,000.00	
Proceeds from Sale of Capital Assets	20,000.00	26,051.00	26,051.00	
Insurance Loss Recoveries		49,848.00	49,848.00	
Restoration of Federal Funds		(284,000.00)		284,000.00
Total Other Financing Sources (Uses)	220,000.00	(8,101.00)	275,899.00	284,000.00
Net Change in Fund Balances	82,123.00	527,617.04	922,095.17	394,478.13
Fund Balances, Beginning	199,227.00	449,734.19	449,734.19	
Fund Balances, Ending	\$ 281,350.00	\$ 977,351.23	\$ 1,371,829.36	\$ 394,478.13

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 1,500,000.00	\$ 1,902,559.98	\$ 1,676,407.91	\$ (226,152.07)	\$ 740,743.00	\$ 1,743,702.58	\$ 1,192,574.38	\$ (551,128.20)
<u>1,500,000.00</u>	<u>1,902,559.98</u>	<u>1,676,407.91</u>	<u>(226,152.07)</u>	<u>740,743.00</u>	<u>1,743,702.58</u>	<u>1,192,574.38</u>	<u>(551,128.20)</u>
962,500.00	1,225,609.03	1,081,016.08	144,592.95	510,293.00	779,281.66	621,150.26	158,131.40
45,000.00	85,809.00	38,408.60	47,400.40	68,427.00	96,475.00	2,361.78	94,113.22
	4,822.00	1,403.07	3,418.93		4,449.00		4,449.00
103,750.00	157,502.44	126,762.65	30,739.79	99,418.00	281,631.15	212,525.67	69,105.48
174,500.00	140,752.20	140,752.20		9,980.00	166,607.54	7,822.38	158,785.16
					23,000.00	6,772.00	16,228.00
146,750.00	166,578.73	166,578.73		46,375.00	65,961.81	37,397.87	28,563.94
	4,295.22	4,295.22			3,812.00	3,812.00	
	8,370.14	8,370.14			3,739.00	3,180.00	559.00
67,500.00	65,433.41	65,433.41		6,250.00			
	791.31	791.31					
	42,596.50	42,596.50			297,552.42	297,552.42	
<u>1,500,000.00</u>	<u>1,902,559.98</u>	<u>1,676,407.91</u>	<u>226,152.07</u>	<u>740,743.00</u>	<u>1,722,509.58</u>	<u>1,192,574.38</u>	<u>529,935.20</u>
					21,193.00		(21,193.00)
					21,193.00		(21,193.00)
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 21,193.00</u>	<u>\$ 0.00</u>	<u>\$ (21,193.00)</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 6,062,490	\$ 6,062,490	0.00%	\$ 4,859,518	124.75%
October 1, 2010	0	693,107	693,107	0.00%	3,306,690	20.96%

**JEFFERSON 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 October 1, 2010, unfunded actuarial accrued liability of \$693,107 was significantly lower than the October 1, 2007, liability of \$6,062,490 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The amortization period for the UAAL was revised from 30 to 10 years, assuming that many retirees age 65 and older will discontinue coverage under the District plan.
- There was a decrease in eligible retirees, resulting in a shorter benefit period. Consequently, the amortization period was adjusted to recognize all accrued benefits before being paid out.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**JEFFERSON 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	\$ 128,933.36	\$
National School Lunch Program	10.555	300,350	375,916.56	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	39,503.40	
Total United States Department of Agriculture			544,353.32	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	463,468.00	
Special Education - Preschool Grants	84.173	267	57,991.33	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	137,002.77	
Leon County District School Board:				
Special Education - Grants to States	84.027	None	13,711.37	
Total Special Education Cluster			672,173.47	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 226, 228	631,134.79	12,778.16
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	226	131,306.41	
Total Title I, Part A Cluster			762,441.20	12,778.16
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	5,790.00	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	4,295.31	
Total Educational Technology State Grants Cluster			10,085.31	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	100,415.89	
ARRA - School Improvement Grants, Recovery Act	84.388	126	385,556.65	
Total School Improvement Grants Cluster			485,972.54	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	314,113.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	9,931.00	
Total State Fiscal Stabilization Fund Cluster			324,044.00	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	24,005.42	
Career and Technical Education - Basic Grants to States	84.048	161	66,869.91	
Twenty-First Century Community Learning Centers	84.287	244	152,997.49	
Rural Education	84.358	110	19,614.79	
Improving Teacher Quality State Grants	84.367	224	153,443.10	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	2,238.22	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	3,395.29	
Education Jobs Fund	84.410	541	204,769.00	
Tallahassee Community College:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	None	5,288.60	
Total Indirect			2,887,338.34	12,778.16
Total United States Department of Education			2,887,338.34	12,778.16
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	69,782.32	
Total Expenditures of Federal Awards			\$ 3,501,473.98	\$ 12,778.16

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 used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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, each major fund, and the aggregate remaining fund information of the Jefferson 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, as described in our report on the Jefferson 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 27, 2012



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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

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

Compliance

We have audited the Jefferson 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 Special Tests and Provisions – Highly Qualified Teachers that are applicable to its Title I, Part A Cluster program. Also, as described in Federal Awards Finding Nos. 2 and No. 3 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Matching, Level of Effort, Earmarking – Early Intervention Services and Allowable Costs/Cost Principles that are applicable to its Special Education Cluster

program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those 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 Nos. 4, 5, and 6.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses 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 Nos. 1, 2, and 3 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 Nos. 4, 5, and 6 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 27, 2012

**JEFFERSON 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 Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA), 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:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**JEFFERSON 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, as presented for audit, disclosed that financial reporting procedures could be improved. For example:

- In the Capital Projects - Public Education Capital Outlay (PECO) Fund, the District mistakenly overstated deferred revenue and understated State revenue by \$109,232 for certain PECO revenues earned during the 2010-11 fiscal year.
- Preparation of fund financial statements pursuant to generally accepted accounting principles requires an analysis to determine the major funds that require separate columnar presentation. The District must report a fund as major when the fund’s liabilities represent at least 10 percent of the total governmental funds’ liabilities. The above reporting error caused the District to overstate total governmental funds’ liabilities and resulted in the District’s exclusion of the Capital Projects - Other Fund from major fund reporting. Separately reporting major funds allows financial statement users to readily identify the District’s most significant funds and their related balances and transactions, and ensures compliance with generally accepted accounting principles.
- In an attempt to resolve questioned costs identified in previous audits that were owed by the General Fund to the Special Revenue – Other Fund, the District inadvertently overstated cash, understated due from other funds, overstated due to other funds, and overstated instruction expenditures in the General Fund by \$102,537 each. These attempts also resulted in understated cash, overstated due from other funds, understated due to other funds, overstated deferred revenue by the same amount in the Special Revenue - Other Fund. Control deficiencies over bank account reconciliations and journal entries, as discussed below in Financial Statement Finding No. 2, may have contributed to these financial reporting errors.

Reporting errors such as these may cause financial statement users to incorrectly assess the District’s financial position. We extended our procedures to determine the adjustments necessary to properly report these account balances on the District’s financial statements, 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. 2011-154.

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

SIGNIFICANT DEFICIENCY

Finding No. 2: Bank Account Reconciliations and Journal Entries

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. The District reported cash balances at June 30, 2011, totaling approximately \$2.2 million.

The District maintained nine separate bank accounts, and personnel generally performed monthly bank account reconciliations during the 2010-11 fiscal year; however, reconciling items on certain June 2011 bank reconciliations were not properly supported. For example, for two bank accounts recorded in the General Fund, the bank account reconciliations identified \$782,000 and \$128,000 for “outstanding credits” to increase and decrease, respectively, the bank balances to the general ledger balances. Also, for the payroll bank account recorded in the General Fund, the bank account reconciliation identified approximately \$69,000 of “debits not posted” to decrease the bank balance to the general ledger balance. However, District records did not initially evidence the basis for these reconciling items.

Through our extended audit procedures, we determined that most of the reconciling items occurred because of misidentified reconciling items on the bank reconciliations. These misidentified reconciling items included an erroneous \$259,000 deposit in transit and a \$155,000 receivable. Other reconciling items occurred because of incorrect journal entries, such as a \$156,000 transfer between funds that did not occur but was recorded in the general ledger. As discussed in Financial Statement Finding No. 1, control deficiencies over bank reconciliations and journal entries may have contributed to financial reporting errors. In addition, although District personnel indicated that supervisory review was performed to approve the June 2011 bank account reconciliations, District records did not evidence this review and approval. Without properly completed and reviewed bank account reconciliations and accurate journal entries recorded in the general ledger, errors or fraud could occur without timely detection.

Recommendation: The District should enhance its procedures to ensure accurate reconciliations of bank accounts to the general ledger, prompt resolution of differences noted during the reconciliation process, supervisory review and approval of the reconciliations, and accurate recording of journal entries.

ADDITIONAL MATTERS

Finding No. 3: 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

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.

Section 1008.22(3), Florida Statutes (2010), at the school were the employee works. 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 the subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

While the District has established performance assessment procedures for instructional personnel and school administrators generally based on criteria prescribed by section 1012.34(3)(a), Florida Statutes (2010), District 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, in May 2011, the Board approved an inclusive rewards plan that provided salary supplements to instructional personnel and school administrators based on factors such as student gains on FCAT reading scores; however, the performance assessments did not provide a numeric or percentage indicator to evidence a correlation between the student gains and performance assessments, nor that student gains were the primary contributing factors used to evaluate employee performance.

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. 2011-154.

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

Finding No. 4: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (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.

The District's inclusive rewards plan provided that instructional personnel could receive a \$500 supplement with an effective or higher rating or if students of the instructional personnel made a 65 percent gain on learning in addition to an effective or higher rating the employee would receive a \$750 supplement. District personnel indicated that 32 of 82 instructional personnel were awarded performance pay for the 2010-11 fiscal year totaling \$23,625. However, the Board had not adopted formal policies and procedures establishing the documented process to identify the

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.

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

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

- **Instructional Personnel.** The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).
- **School-based Administrators.** The school-based administrators' salary schedule evidenced consideration of differentiated pay for additional responsibilities and level of job performance difficulties because principals' salaries were more than those of assistant principals. District personnel indicated that due to the District's financial status, the school-based administrative classifications for principal and assistant principal were paid the same regardless of the school demographics at the school. However, the salary schedule did not evidence consideration of differentiated pay based on school demographics or critical shortage areas, contrary to Section 1012.22(1)(c)4., Florida Statutes.

District personnel indicated that salary schedule revisions to comply with the statutory differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-top grant requirements and for union negotiations. 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 the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-154.

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

Finding No. 5: 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 669.006, 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.

During the 2010-11 fiscal year, the District regularly used EFTs to transfer funds between District bank accounts and to make direct deposits of employees pay and other payroll-related activity. The Board approved an EFT agreement with a bank, signed by those identified as initiators and authorizers of EFTs and the agreement restricted non-payroll EFTs to Board bank accounts. However, the District had not updated the agreement to remove the ability of the former Superintendent, who terminated in November 2008, to make changes to the agreement or the former chief financial officer, who terminated in January 2008, to make transfers between bank accounts. While the bank agreement restricts non-payroll EFTs to Board bank accounts, controls could be further enhanced if electronic fund transfer agreements were timely updated for personnel changes.

While the District used informal processes including oral instructions and transfer control documents to monitor and control EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. Further, our review of District records supporting 15 EFTs disclosed that the District did not maintain signed confirmations of the initiator and authorizer 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. Such procedures should ensure that the District timely amends bank agreements for changes in personnel and maintains signed confirmations of the initiator and authorizer of EFTs.

Finding No. 6: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, provides that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the 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. These procedures also stated that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported on the day after the last date of attendance.

For the 2010-11 fiscal year, the District reported to FDOE 19,240 adult general education contact hours for 54 students enrolled in four classes each for fall 2010 and spring 2011. Adult general education classes are held three days each week and 35 minutes per day for each class; however, in the master class schedule for students enrolled in the fall 2010 and spring 2011 semesters, the District mistakenly reported from approximately 120 to 150 minutes per day for these classes. As a result, the District overreported adult general education contact hours by a total of 14,448 hours. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that

such data be submitted correctly. A similar finding was noted in previous audit reports, most recently in our report No. 2011-154.

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

Finding No. 7: Graduation Eligibility and Student Diplomas

For the 2010-11 fiscal year, Jefferson County Middle/High School had 33 graduates who received diplomas. The District entered into a written agreement with a print company to prepare the diplomas for the graduates; however, the agreement did not identify the individual authorized to order diplomas. In addition, our tests of 20 diploma recipients disclosed that 3 of the recipients were not eligible to graduate because the students lacked the required class credits. District personnel concurred with our test results and indicated that the District had used outdated criteria to determine graduation eligibility. Written agreements identifying the employees authorized to order diplomas and verification of those eligible for graduation based on appropriate requirements may ensure that diplomas are only issued to those who are eligible to graduate. Similar findings were noted in previous audit reports, most recently in our report No. 2011-154.

Recommendation: The District should strengthen controls over diploma processing to ensure that contracts identify individuals authorized to order diplomas and that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

Finding No. 8: Information Technology - Written Policies and Procedures

Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. However, the District lacked written policies and procedures for the following IT functions:

- Administering user identification codes (IDs), administrator IDs, administrator passwords, guest accounts, and security devices (such as firewalls and routers).
- Changing or deleting vendor-supplied passwords upon installation.
- Resetting user passwords, including positive identification of the user.
- Prohibiting administrator rights on the workstations of end users.
- Revoking access privileges of former or reassigned employees, consultants, and vendors.
- Removing confidential information from consultant or vendor equipment.
- Defining responsibilities, access privileges, and activities for network, database, and security administrators and help desk staff.

According to District personnel, the lack of written policies and procedures were due to staffing constraints. Without written policies and procedures, the risk is increased that District IT controls may not be followed consistently and in a manner pursuant to management's expectations. Similar findings were noted in previous audit reports, most recently in our report No. 2011-154.

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

Finding No. 9: Information Technology - Disaster Recovery Plan

Disaster recovery planning is an important element of information technology (IT) controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. The success and effectiveness of a disaster recovery plan requires elements such as provisions for secured off-site storage of critical backups and alternate site processing arrangements.

The Panhandle Area Educational Consortium (PAEC) provides various programs and services, including information technology services, to member districts. PAEC utilizes the Northwest Regional Data Center (NWRDC) for processing various administrative application systems. The Board entered into a reciprocal disaster recovery agreement with PAEC member districts whereby member districts agreed to serve as alternative processing sites for each other in the event of a disaster that interrupts critical IT operations.

The District had established a disaster recovery plan and assigned responsibilities for performing disaster recovery activities to particular employees; however, the District had not tested its plan, the plan was not comprehensive, and it excluded the prioritization of critical operations and data, provisions for backup personnel, and documentation of procedures to follow when the NWRDC is inoperable. Appropriate disaster recovery planning should indicate the conditions under which the back-up site will be used; outline procedures for notification of the back-up site and employees; establish a job priority schedule; and include steps to be followed at the back-up site. District personnel indicated that, because of other priorities, the District had not ensured all appropriate elements were contained in the disaster recovery plan. When a disaster recovery plan does not include key recovery control elements and has not been tested for feasibility or weaknesses, there is an increased risk that restoration of IT operations may be delayed in the event of a disaster. Similar findings were noted in previous audit reports, most recently in our report No. 2011-154.

Recommendation: The District should enhance its disaster recovery plan to include a prioritized list of critical operations and data; a list of backup personnel so that the plan is not dependent upon any one individual; and provide contingencies for service interruptions with NWRDC. In addition, the disaster recovery plan should be tested annually.

Finding No. 10: Information Technology – Security Controls - Network and Application Access and Authorization

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to network and application access and authorization needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to network and application access and authorization, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction. Similar findings were noted in previous audit reports, most recently in our report No. 2011-154.

Recommendation: The District should improve security controls related to network and application access and authorization to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 11: Information Technology - Security Awareness Training Program

A comprehensive security awareness training program appraises new employees of, and reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although the District did have a Terms and Conditions Agreement that included consideration of, among other things, appropriate Internet usage, e-mail messages, security of network resources, and the confidentiality of passwords, the Agreement was only signed by instructional personnel. In addition, the District did not have a comprehensive security awareness training program to facilitate the ongoing education and training of applicable employees on security responsibilities, including acceptable and prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information. A comprehensive security awareness training program would decrease the risk that the District's IT resources may be unintentionally compromised by employees while performing their assigned duties. A similar finding was noted in previous audit reports, most recently in our report No. 2011-154.

Recommendation: The District should promote security awareness through a comprehensive training program to ensure that applicable employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. In addition, the District should require applicable employees to acknowledge their understanding and acceptance of security-related responsibilities on an annual basis.

Finding No. 12: Information Technology - Security Incident Response Plan

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

As of June 30, 2011, the District had not developed a written security incident response plan. Although District personnel concurred that a security incident response plan would be useful, the District had not initiated any efforts to develop such a plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA)**Finding Type:** Material Noncompliance and Material Weakness**Questioned Costs:** \$76,587 (CFDA Nos. 84.010 and 84.389 – ARRA)

Special Tests and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, Code of Federal Regulations (CFR), requires that the District ensure that teachers who teach core academic subjects in a program supported with Title I funds, such as a Title I schoolwide program, be highly qualified (HQ). Title 34, Section 200.56, CFR, stipulates, among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework to be HQ.

District records disclosed that 2 of 13 teachers tested, who taught one or more core academic subjects at Title I schoolwide program schools, did not meet the requirements to be HQ for some of the core academic subjects they were teaching. Further, District records did not evidence the steps taken to obtain the appropriate certifications for these teachers, or the efforts to ensure the use of only HQ teachers for these classes. The salaries and benefits for the 2 teachers and related indirect costs for these classes taught during the 2010-11 fiscal year totaled \$76,587, and represents questioned costs subject to disallowance by the grantor.

Having highly qualified staff enhances the District's ability to properly educate Title I students and contributes toward meeting the adequate yearly progress standards set by the United States Department of Education.

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 Special Tests and Provisions – Highly Qualified Teachers that is applicable to its Title I program, our report on the District's compliance with that requirement includes a qualification to that effect.

Recommendation: **The District should enhance procedures to ensure that all teachers hired to teach core academic subjects in Title I schoolwide program schools are highly qualified. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the \$76,587 of questioned costs or restore this amount to the Title I program.**

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 2:**Federal Agency:** United States Department of Education**Pass-Through Entity:** Florida Department of Education**Program:** Special Education – Grants to States (CFDA No. 84.027) and Special Education – Grants to States, Recovery Act (CFDA No. 84.391)**Finding Type:** Material Noncompliance and Material Weakness**Questioned Costs:** \$67,780 (CFDA No. 84.027 - \$22,644 and CFDA No. 84.391 - \$45,136)

Matching, Level of Effort, Earmarking – Early Intervention Services. The Individuals with Disabilities Education Act (IDEA) and the American Recovery and Reinvestment Act (ARRA) provide funds for services to children with disabilities, including early intervention, special education, and related services. Title 34, Section

300.226, CFR, limits the District's use of the amount received under Part B of the Act, in combinations with other amounts, to no more than 15 percent to develop and implement early intervention services for students who are not currently identified as needing special education or related services. The Florida Department of Education (FDOE) determined that the District had significantly disproportionate data for race or ethnicity of students with disabilities, requiring the District to set aside 15 percent of its IDEA and related ARRA funds for coordinated early intervention services (CEIS). Expenditures for CEIS may include personnel costs, such as behavioral specialists, exceptional student education teachers, paraprofessionals, and other staff.

The District identified students as eligible for Special Education program regular instruction, such as reading, speech, behavioral, and emotional, based on individual educational plans prepared yearly that include annual goals for the students. Students identified for CEIS receive remediation through the general education setting, typically by a general education teacher under the guidance of a behavioral specialist, exceptional student education specialist, or other licensed mental health specialists.

FDOE awarded the District a two-year IDEA Part B, ARRA grant with funds of \$170,750 each for the 2009-10 and 2010-11 fiscal years; IDEA Part B funds totaling \$435,285 for the 2009-10 fiscal year; and IDEA Part B funds totaling \$442,159 for the 2010-11 fiscal year. The District was required to set aside \$182,842 representing 15 percent of the total of these awards for CEIS. However, as a result of oversights, the District only spent \$39,676 for CEIS during the 2009-10 and 2010-11 fiscal years. The District was approved to roll forward \$62,458 for the 2011-12 fiscal year, resulting in \$80,708 not spent on CEIS or rolled forward to the next fiscal year. Subsequent to our inquiry, District personnel provided documentation of additional expenditures for CEIS that had not been charged to the earmark totaling \$12,928. Further, District personnel indicated that services were provided to CEIS students to support the remainder of the CEIS expenditures; however, documentation provided was not independently verified by someone other than the employee or vendor that provided the services. As a result, questioned costs of \$67,780 are subject to disallowance by FDOE.

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 Matching, Level of Effort, Earmarking – Early Intervention Services that is applicable to its Special Education program, our report on the District's compliance with that requirement includes a qualification to that effect.

Recommendation: The District should establish procedures to ensure that coordinated early intervention services are provided for the Special Education program. Additionally, the District should document to the grantor (FDOE) the allowability of the \$67,780 of questioned costs or restore this amount to the Special Education program.

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 3:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)****Finding Type: Material Noncompliance and Material Weakness****Questioned Costs: \$56,606 (CFDA No. 84.027 - \$40,531 and CFDA No. 84.173 - \$16,075)**

Allowable Costs/Cost Principles. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal Awards. For the 2010-11 fiscal year, the District reported Special Education program expenditures totaling \$658,462 for salaries and benefits, purchased services, and other costs, and we tested the propriety of \$206,635 of these expenditures.

Our tests of Special Education program expenditures disclosed that expenditures were generally appropriate; however, for payments to speech and occupational therapy and other consultative services totaling \$65,231, District records did not initially evidence that District personnel with direct knowledge confirmed and documented receipt of the services by using records, such as sign-in and out sheets, for students served. Subsequent to our inquiry, the District provided documentation supporting the propriety of \$8,625 of expenditures for one consultant; however, District records did not evidence the propriety of the remaining costs of \$56,606, resulting in questioned costs subject to disallowance by the grantor (FDOE). Without 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.

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 Special Education program, our report on the District's compliance with that requirement includes a qualification to that effect.

Recommendation: **The District should enhance procedures to ensure that District personnel with direct knowledge of the contracted services confirm and document that the services were provided to program eligible students prior to payment. In addition, the District should document to the grantor (FDOE) the allowability of the \$56,606 of questioned costs or restore this amount to the Special Education program.**

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 4:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: Not Applicable**

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Section 299.5, CFR, provides that the District may receive its full allocation of Title I funds only if FDOE finds that either the aggregate expenditures of State and local funds for free public education, or the combined fiscal effort per student, for the preceding fiscal year, was not less than 90 percent for the second preceding fiscal year. For the 2010-11 fiscal year, compliance would be determined by comparing data from the 2009-10 (preceding) and 2008-09 (second preceding) fiscal years. Further,

Title 20, Section 7901, United States Code, provides that future allocations of Title I program awards would be reduced by the exact proportion by which the District failed to meet the fiscal effort requirement using the measure most favorable to the District.

District records did not evidence that the District monitored the maintenance of effort requirements and, through review of District records, FDOE determined that the District did not meet the 90 percent maintenance of effort threshold. Based on the District’s unaudited 2009-10 and 2008-09 annual financial reports and using the most favorable measure, FDOE determined that the District did not meet the maintenance of effort requirement by \$598,131. We reperformed the maintenance of effort calculations using full-time enrollment figures and audited General Fund revenues and expenditures, and determined the combined fiscal effort per student decreased from the 2008-09 fiscal year to the 2009-10 fiscal year by approximately 83 percent, resulting in a maintenance of effort shortfall of \$762,407. In addition, our comparison of the aggregate expenditures of State and local funds for these years disclosed the following:

Aggregate Expenditures Effort	2009-10 Fiscal Year*		2008-09 Fiscal Year*	
General Fund and Stabilization Fund Total Expenditures	\$ 8,698,499.00		\$ 10,293,016.85	
Less: Capital Outlay Expenditures	22,712.64		44,856.00	
Less: Debt Service Expenditures	9,583.28		16,385.50	
Total Adjusted Expenditures	\$ 8,666,203.08	(A)	\$ 10,231,775.35	(B)
Percentage [(A)/(B)]	85%			
Shortfall Percentage [90% - (A)/(B)]	5%			

		Calculation
Required Amount to Maintain Effort	\$ 9,208,597.82	[(B) X 90 percent]
Less: 2009-10 FY Allowable Expenditures (A)	8,666,203.08	
Maintenance of Effort Shortfall	\$ 542,394.74	

* - Based on audited financial statements.

Using the most favorable measure (aggregate expenditures, as shown in the schedule above), the District had 5 percent less aggregate expenditures in the preceding fiscal year than in the second preceding fiscal year. District personnel indicated that the District reduced General Fund expenditures for the 2009-10 fiscal year due to budget constraints; however, without procedures to monitor maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for Title I program services.

Recommendation: The District should establish controls over State and local resources allocated and expended for its Title I program to ensure compliance with Federal maintenance of effort requirements. In addition, the District should contact FDOE to determine whether future Title I program allocations should be reduced for failure to meet these requirements.

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 5:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA) and Special Education Cluster (CFDA Nos. 84.027 and 84.391 – ARRA)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: None**

Allowable Costs/Cost Principles – Compensation of Personnel Services. OMB Circular A-87, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. In addition, OMB Circular A-87 provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports (PARS) or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of the certification.

For the 2010-11 fiscal year, the District recorded salary and benefit expenditures for the Title I and Special Education programs, totaling approximately \$518,000 and \$406,000, respectively. Of these amounts, we tested the propriety of expenditures, totaling \$207,461 and \$204,470, respectively, for 32 employees, 22 of which had 100 percent of their time charged to the respective grants and 10 of which had less than 100 percent of their time charged to the respective grant. Our tests disclosed that enhancements were needed in District procedures for maintaining documentation to support these costs, as follows:

- The District did not require semiannual certifications for six employees working solely on the Title I program from January through June 2011 to support salary expenditures totaling \$121,662.
- The Title I program paid \$86,605 in salaries for a staff services secretary, a math coach, and an in-school suspension teacher, who worked 90 percent, 65 percent, and 86 percent, respectively, for the program for the 2010-11 fiscal year; however, monthly PARS or equivalent documentation were not maintained to support these costs. The District maintained one PAR for the staff services secretary, two PARS for the in-school suspension teacher, and no PARS were maintained for the math coach.
- The Special Education program paid \$25,417 in salaries for four employees who worked 15 percent for the program; however, the District did not maintain monthly PARS or the equivalent documentation to support these costs. Each of the four employees completed only one PAR during the 2010-11 fiscal year.

Subsequent to our inquiry, District personnel prepared semiannual certifications for the six employees working solely on the Title I program that supported their salary expenditures to the program. For the remaining Title I and Special Education program employees tested, we performed additional procedures, including supervisory personnel interviews, and determined that the employees devoted the appropriate amount of time on Federal program activities for their respective salary charges.

When personnel activity reports or other evidence to delineate the job responsibilities and work activities are not properly maintained, there is an increased risk that salary and benefits costs could be inappropriately charged to a Federal program. A similar finding was noted in our report No. 2011-154.

Recommendation: The District should enhance its procedures to provide for the required semiannual certifications for employees who work solely on a single Federal program and monthly PARs or equivalent documentation for employees who work on multiple activities or cost objectives.

District Contact Person: Marcia Willis, Chief Financial Officer

Federal Awards Finding No. 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391-ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); School Improvement Grants (CFDA Nos. 84.377 and 84.388-ARRA); Education Jobs Fund (CFDA No. 84.410)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Reporting. Expenditures of grant funds are reported through FDOE’s On-Line Disbursement Reporting Application in accordance with reporting and administrative requirements set forth in the FDOE publication titled, *Project Application and Amendment for Federal and State Programs*. Section C of this publication provides instructions for preparing and submitting the Cash Advance and Reporting of Disbursements System (CARDS) Reconciliation, a report used to reconcile the Federal cash balance shown on FDOE’s CARDS Detail by Agency Report to the District’s accounting records. The reconciliation of all cash advances and disbursements that occurred during the 2010-11 fiscal year was to be completed and submitted to FDOE by December 1, 2011.

As of January 20, 2012, the District had not prepared or filed the CARDS Reconciliation with FDOE. While we were able to materially reconcile District records with the FDOE Federal cash advance balance shown on the CARDS report, the failure to periodically reconcile FDOE cash advance balances and program expenditures to amounts per District records limits the District’s ability to timely detect and correct errors in its accounting records or Federal financial reports. A similar finding was noted in our report No. 2011-154.

Recommendation: The District should develop controls to improve its monitoring and reporting of Federal cash balances and Federal expenditures to ensure that amounts reported to FDOE reconcile to the District’s accounting records.

District Contact Person: Marcia Willis, 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. 2011-154.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*JEFFERSON 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
2007-121 (2)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Costs/Cost Principles and Procurement	The District paid amounts in excess of those provided for in a psychological services contract, paid for an evaluation of a gifted student; and made some consultation services payments, which were initially unsupported, all of which resulted in questioned costs of \$875.	Corrected.	Grantor reviewed and sent letter of resolution indicating questioned costs were not required to be repaid.
2007-121 (3)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Costs/Cost Principles and Procurement	The District paid another local educational agency for special education services pursuant to an interlocal agreement. Some of these amounts were not adequately supported, resulting in questioned costs of \$21,663.54.	Corrected.	Grantor reviewed and sent letter of resolution indicating questioned costs were not required to be repaid.
2007-121 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Allowable Costs/Cost Principles	Salaries and benefits of two employees were paid from program funds absent documentation required by OMB Circular A-87. Based upon duties performed by the employees, \$12,153.64 represented questioned costs.	Corrected.	Grantor reviewed and sent letter of resolution indicating questioned costs were not required to be repaid.
2007-121 (5)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Matching, Level of Effort, Earmarking	The District did not document that \$82,056 of Title I funds earmarked for supplemental educational services (SES) was expended for that purpose. Additionally, \$27,352 earmarked for these services was budgeted to be provided to SES providers that were not State-approved, resulting in total questioned costs of \$109,408.	Corrected.	Grantor reviewed and sent letter of resolution indicating questioned costs were not required to be repaid.
2008-076 (1)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Costs/Cost Principles	Salaries and benefits of several employees, whose job functions either wholly or partially did not benefit Special Education Cluster programs, were paid from program funds. Based upon duties performed by the employees, \$102,537.20 represented questioned costs.	Corrected.	Questioned costs were repaid prior to June 30, 2011.
2011-154 (1)	Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392) - Matching, Level of Effort, Earmarking - Maintenance of Effort	District records did not evidence that the District met the maintenance of effort requirements, resulting in questioned costs of \$284,651.47.	Partially corrected.	Grantor revised amount of questioned costs to \$99,000 and adjusted IDEA grant amount. Grantor provided letter of resolution of finding. Questioned costs have not yet been restored.
2011-154 (2)	Title I Grants to Local Educational Agencies (CFDA 84.010) and Special Education Cluster (CFDA Nos. 84.027 and 84.391) - Allowable Costs/Cost Principles - Compensation of Personnel Services	Required documentation to support salary and benefit costs for 13 employees was not maintained.	Partially corrected.	District has changed procedures and provided additional employee training to correct.
2011-154 (3)	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); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Reporting	Controls over monitoring of and reporting of Federal cash balances and expenditures could be enhanced to ensure that amounts reported to the Florida Department of Education are timely reconciled to the District's accounting records.	Partially corrected.	The District has improved controls over monitoring of and reporting of Federal cash balances; however, further enhancements need to be made.

EXHIBIT A
MANAGEMENT'S RESPONSE

BILL BRUMFIELD
Superintendent of Schools
Phone: 850-342-0100
Suncom: 297-0100
Fax: 850-342-0108

Jefferson County School Board

575 South Water Street
MONTICELLO, FLORIDA 32344



March 15, 2012

Auditor General State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

To Whom It May Concern,

Please find enclosed Jefferson County School's audit response for the year ending June 30, 2011.

If you have any further questions and/or concerns, please do not hesitate to contact our offices.

Sincerely,

William E. Brumfield
Superintendent

DI

Enclosure

BOARD MEMBERS

DISTRICT 1
EDWARD W. VOLLERTSEN

DISTRICT 2
SANDRA SAUNDERS

DISTRICT 3
SHIRLEY A. WASHINGTON

DISTRICT 4
MARIANNE ARBULU

DISTRICT 5
CHARLES BOLAND

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

**RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND
RECOMMENDATIONS
JEFFERSON COUNTY SCHOOL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Finding No. 1: Financial Reporting

Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

The District concurs with Finding No. 1. The District has reviewed the unique requirements for recording revenue and deferred revenue in the PECO Fund and, in the future, will record them appropriately. In the future, the District will review requirements related to the classification of a fund as a major fund, and calculate the percent of total governmental funds' liabilities for each fund to determine those that require separate columnar presentation. Controls over bank reconciliations and journal entries over cash will be strengthened to ensure that cash is recorded in the appropriate fund.

Finding No. 2: Bank Account Reconciliations and Journal Entries

Improvements were needed in the bank account reconciliation process.

The District concurs with Finding No. 2. When the District was in a state of financial emergency, the position charged with performing bank reconciliations was eliminated. The responsibility was shifted to another employee who, after multiple training sessions, struggled to perform the reconciliations in a timely and accurate manner. Because of this, the responsibility for reconciliation of most of the accounts was moved to a different employee. The District now believes that the employees performing bank reconciliations are adequately trained, and will be able to perform this function in an accurate and timely manner. The District will develop written procedures related to bank reconciliations. The District will document completion and review of bank reconciliations.

Finding No. 3: Performance Assessments

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).

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

The District concurs with Finding No. 3. The District has worked diligently with the Jefferson County Education Association (JCEA) on the development and implementation of the new Jefferson County School Board Instructional Personnel Performance Appraisal System and has received the Department of Education and School Board approval for implementation during the 2011-2012 school year.

Finding No. 4: Compensation and Salary Schedules

The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel and school-based administrator using the factors prescribed in Section 1012.22(1)4., Florida Statutes (2010).

The District concurs with Finding No. 4. The District has a Memorandum of Understanding with the Jefferson County Education Association (JCEA) entitled the Inclusive Rewards Plan (IRP) which was implemented in the 2011-2012 school year to provide incentive pay to a teachers and school administrators as the district works to adopt formal policies and procedures ensuring that a portion of each instructional employee's compensation is based on performance and differential pay of instructional personnel and school-based administrators is appropriately identified on salary schedules consistent with Section 1012.22 (1)(c). A new salary booklet was approved for administrators in 2011-12 school year and the district and the JCEA are currently in negotiations regarding the salary schedule for instructional employees.

Finding No. 5: Electronic Fund Transfers

Controls over electronic funds transfers could be enhanced.

The District concurs with Finding No. 5. The District will develop written polices prescribing the accounting and control procedures for electronic funds transfers (EFTs) and will submit these polices to the Board for approval at the May Board meeting.

Finding No. 6: Adult General Education Classes

Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

The District concurs with Finding No. 6. During the 2011-12 term, students have a maximum of two and a half contact hours each day for three days per week for a total of 105 minutes. The total student contact hours per week are 420 minutes per student. The MIS director will monitor reporting during each FTE period to insure the cumulative number of student contact hours per student is accurately reported. Attendance, withdrawals and absences will continue to be monitored and documented on a daily basis to facilitate reporting accuracy.

Finding No. 7: Graduation Eligibility and Student Diplomas

The District could enhance controls over the issuance of student diplomas.

The District concurs with Finding No. 7. The District has initiated corrective actions to strengthen controls over diploma processing and ensure the current contract reflects specific individuals authorized by the site administrator to order diplomas and that diplomas are prepared only and strictly for eligible students meeting all the requirements applicable for graduation.

Finding No. 8: Informational Technology – Written Policies and Procedures for certain IT Functions

The District lacked written policies and procedures for certain information technology (IT) functions.

The District concurs with Finding No. 8. The Technology Department has developed written policies and procedures for certain IT functions and the policies and procedures will be submitted for School Board Approval for the June 2012 School Board meeting.

Finding No. 9: Informational Technology – Disaster Recovery Plan

The District's IT disaster recovery plan lacked key disaster recovery control elements and had not been tested.

The District concurs with Finding No. 9. The Jefferson County School Board SIS and Financial System are hosted by Panhandle Area Education Consortium (PAEC) and the data is stored at Northwest Regional Data Center in Tallahassee. PAEC developed a Disaster Recovery Plan for the districts that are a part of PAEC and the Director of Technical Support Services and Payroll

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Specialist will be testing a Fake Payroll Run during the month of June in Madison and will have documentations to verify that the PAEC Disaster Recovery Plan was successful.

Finding No. 10: Informational Technology – Security Controls Related to Network and Application Access

The District needed to improve IT security controls related to network and application access and authorization.

The District concurs with Finding No. 10. The security controls are covered in the procedures in the response to Finding No. 8.

Finding No. 11: Informational Technology – Comprehensive Security Awareness Training Program To Protect IT resources

The District had not implemented a comprehensive IT security awareness training program.

The District concurs with Finding No. 11. The Director of Technical Support Services will develop a training video that will cover the importance of securing and protecting user names and passwords to assigned computers, wireless access points, GATEWAY, TERMS, and online educational applications.

Finding No. 12: Informational Technology – Written Security Incident Response Plan

The District did not have a written IT security incident response plan.

The District concurs with Finding No. 12. The written security incident response plan was prepared in January of 2012.

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: Special Tests and Provisions—Highly Qualified Teachers

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

District procedures did not ensure that all teachers hired to teach core academic subjects in Title I school-wide schools were highly qualified, resulting in \$76,587 of questioned costs.

The District concurs with Federal Awards Finding No. 1. The District will strengthen controls over the hiring, placement and salary coding procedures of instructional personnel, and will conduct quarterly reviews of personnel assignments to ensure all personnel are highly qualified and appropriately placed at their respective schools. In order to implement this system of checks and balances with fidelity the review committee will consist of the Assistant Superintendent, Chief Financial Officer, Federal Program Specialist and the Human Resource Specialist.

Federal Awards Finding No. 2: Matching, Level of Effort, Earmarking—Early Intervention Services

The District did not adequately document charges to the Special Education program for coordinated early intervention services, resulting in \$67,780 of questioned costs.

The District concurs with Federal Awards Finding No. 2 with prejudice. The District provided documentation of the appropriate use of funds; however, much of it was not used in the calculation towards CEIS due to the fact that the amount of time spent with the students was not documented and initialed by someone other than the employee or vendor on the Personnel Action Forms (PARS) or sign-in sheets. This documentation approach was new to the District and had not been a concern in prior audits. The District will strengthen the time reporting efforts for employee's and vendors paid through federal funds and will ensure proper documentation is presented prior to payment.

Federal Awards Finding No. 3: Allowable Costs/Cost Principles

District records did not evidence that District personnel verified that certain contracted services were provided to program eligible students before payments were made, resulting in \$56,606 of questioned costs.

The District concurs with Federal Awards Finding No. 3. The District will strengthen the time reporting efforts for employee's and vendors paid through federal funds and will ensure

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

proper documentation is presented prior to payment. All sign-in sheets and backup documentation will be verified at the appropriate cost center and initialed by an administrator or their designee prior to submission to the District Office for final verification and payment.

Federal Awards Finding No. 4: Matching, Level of Effort, Earmarking—Maintenance of Effort

District records did not evidence that the District met the maintenance of effort requirement for the Title I program.

The District concurs with Federal Awards Finding No. 4. Although the actual services for students were maintained, the District did not spend the required amount from the General Fund. Instead, following what the District, at the time, thought were the Department of Education's (DOE) guidance, used ARRA funds to supplement the non-ARRA Federal Funds. The District will work with DOE to determine the appropriate amount and method of restoration of federal funds.

Federal Awards Finding No. 5: Allowable Costs/Cost Principles—Compensation of Personnel Services

Required documentation to support personnel charges totaling \$208,267, and \$25,417 for the Title I and Special Education programs, respectively, were not maintained, contrary to Federal regulation.

The District concurs with Federal Awards Finding No. 5. The District will require certifications, and will maintain PARs reports to support salary expenditures for all employees charged to a Federal program, to ensure that all salary and benefits costs charged to a Federal program are appropriate.

Federal Awards Finding No 6: Reporting

The District had not prepared or filed the CARDS Reconciliation with FDOE.

The District concurs with Federal Awards Finding No. 6. The District will develop controls to improve its monitoring and reporting of Federal cash balances and Federal expenditures to ensure that reconciliation of cash advances and disbursements are completed and submitted to FDOE by the required due date.