

BAKER COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Earl Dwight Crews, Chair to 11-21-11	1
Richard Dean Griffis, Vice Chair to 11-21-11, Chair from 11-22-11	2
Jesse D. Davis	3
Charlie M. Burnett	4
Patricia C. Weeks, Vice Chair from 11-22-11	5

Sherrie Raulerson, Superintendent

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

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

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

**BAKER COUNTY DISTRICT SCHOOL BOARD
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.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Assets – Proprietary Fund.....	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	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.....	40
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	42
Notes to Required Supplementary Information.....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	44
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>.....	45
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.....	47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	49
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	52
EXHIBIT A MANAGEMENT'S RESPONSE	53

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: The District entered into a continuing contract for architect services without competitively selecting the firm, contrary to Section 287.055, Florida Statutes.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-112.

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, 2012. 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
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board, as of and for the fiscal year ended June 30, 2012, 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 19 percent of the assets and 78 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Baker County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Baker County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
January 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Baker County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- The District's net assets decreased \$2.9 million to a fiscal year-end balance of \$43.9 million, which represents a 6.2 percent decrease from the 2010-11 fiscal year. This reduction is due primarily to a decline in the District's general revenues.
- During the current fiscal year, the District's General Fund revenues totaled \$33.4 million, representing a decrease of \$1.8 million (5.1 percent) from the 2010-11 fiscal year. Expenditures totaled \$34.7 million for the 2011-12 fiscal year, which is an increase of \$0.8 million (2.2 percent) over the 2010-11 fiscal year.

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 District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, exceptional education, vocational, and adult. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The Baker County Education Foundation, Inc., is a legally separate organization. The component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the District.

The BCSB Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive

economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the District.

Fund Financial Statements

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

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

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

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

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

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

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

The perspective of the statement of net assets is of the District as a whole. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 12,205,453	\$ 13,794,739
Capital Assets	<u>44,521,597</u>	<u>46,113,476</u>
Total Assets	<u>56,727,050</u>	<u>59,908,215</u>
Long-Term Liabilities	11,612,972	11,911,766
Other Liabilities	<u>1,180,715</u>	<u>1,155,784</u>
Total Liabilities	<u>12,793,687</u>	<u>13,067,550</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	37,218,243	38,253,456
Restricted	3,040,660	3,328,953
Unrestricted	<u>3,674,460</u>	<u>5,258,256</u>
Total Net Assets	<u><u>\$ 43,933,363</u></u>	<u><u>\$ 46,840,665</u></u>

The largest portion of the District's net assets (84.7 percent) 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 (6.9 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (8.4 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended		
	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	\$ 993,031	\$ 1,001,511
Operating Grants and Contributions	1,532,027	1,473,930
Capital Grants and Contributions	165,379	533,479
General Revenues:		
Property Taxes, Levied for Operational Purposes	5,071,094	5,214,992
Property Taxes, Levied for Capital Projects	1,202,210	1,245,222
Grants and Contributions Not Restricted to Specific Programs	30,160,758	34,821,338
Unrestricted Investment Earnings	189,542	227,658
Miscellaneous	569,439	1,151,878
Total Revenues	39,883,480	45,670,008
Functions/Program Expenses:		
Instruction	21,302,176	22,233,723
Pupil Personnel Services	1,972,479	2,166,755
Instructional Media Services	648,185	572,721
Instruction and Curriculum Development Services	1,113,624	1,100,118
Instructional Staff Training Services	357,873	414,979
Instruction Related Technology	326,140	338,973
School Board	605,510	467,261
General Administration	305,318	386,492
School Administration	1,965,784	1,987,737
Facilities Acquisition and Construction	1,685,610	1,847,757
Fiscal Services	560,285	576,194
Food Services	1,985,717	2,048,024
Central Services	573,640	940,721
Pupil Transportation Services	2,829,405	2,810,780
Operation of Plant	3,210,452	3,474,085
Maintenance of Plant	1,094,993	1,127,899
Administrative Technology Services	358,417	590,095
Community Services	195,225	209,865
Unallocated Interest on Long-Term Debt	168,348	189,480
Unallocated Depreciation Expense	1,531,602	1,495,169
Total Functions/Program Expenses	42,790,783	44,978,828
Increase (Decrease) in Net Assets	\$ (2,907,303)	\$ 691,180

The largest revenue source is the State of Florida (67.8 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. FEFP revenues decreased by \$1.4 million, or 6.6 percent, while other State revenues, primarily for class size reduction, also decreased by \$308,654, or 4.2 percent, from the previous fiscal year. This resulted in a net decrease in State revenues of \$1.7 million, or

6 percent. The decrease in grants and contributions was primarily due to the decrease in State revenues (as noted above) and reduction of the Federal economic stimulus funding for the 2011-12 fiscal year.

Total governmental expenses for the 2011-12 fiscal year decreased by approximately \$2.2 million, or 4.9 percent, from the previous fiscal year. Instruction expenses represent 49.8 percent of total governmental expenses for the 2011-12 fiscal year and decreased by \$931,547, or 4.2 percent, from the previous fiscal year. The decrease in expenses was mainly the result of Legislative action to reduce employer contribution rates to the Florida Retirement System.

FINANCIAL ANALYSIS OF INDIVIDUAL 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 \$6,165,233, while the total fund balance is \$7,850,209. Total fund balance decreased by \$1,276,073, or 14 percent, during the fiscal year, primarily due to a decrease in State revenues.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$87,606 each, and the expenditures were mainly for instructional salaries and benefits. Because revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2011-12 fiscal year, the District reallocated its General Fund budget through budget amendments. Budget revisions were primarily to adjust planned expenditures to maintain an adequate fund balance. There were no significant variances between the original and final budgeted amounts.

Actual revenues were in line with final budget amounts, while actual expenditures were \$2,668,604, or 7.1 percent, less than final budget amounts, because expenditures were less than planned. The actual ending fund balance exceeded the estimated fund balance in the final amended budget by \$2,740,675.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of the 2011-12 fiscal year, the District had \$44,521,597 invested in capital assets, net of accumulated depreciation. The following table reflects June 30, 2012, balances compared to balances at June 30, 2011:

	Capital Assets at June 30	
	Net of Depreciation	
	6-30-12	6-30-11
Land	\$ 1,273,920	\$ 1,273,920
Improvements Other Than Buildings	926,302	1,052,253
Buildings and Fixed Equipment	40,069,361	41,377,328
Furniture, Fixtures, and Equipment	139,423	120,769
Motor Vehicles	2,021,079	2,162,342
Audio Visual Materials and Computer Software	91,512	126,864
Net Capital Assets	\$ 44,521,597	\$ 46,113,476

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

Long-Term Debt

At June 30, 2012, the District had \$380,000 in outstanding bonds and \$6,923,353 of certificates of participation (COP).

The bonds were paid from special State allocations for debt service. There are two separate bond issues, Series 2005A and Series 2011A, maturing in 2017 and 2015, respectively.

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

Additional information on the District's long-term debt can be found in notes 5 through 7 to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The District's economic condition is closely tied to that of the State of Florida. In response to reduced State appropriations, the Board will rely on unassigned fund balance to maintain continued support for the education of students. Once the unassigned fund balance is used, the District may experience staffing reductions. If the General Fund's combined assigned and unassigned fund balance drops below 3 percent of revenues, the District must notify the Board and Florida Department of Education (FDOE). If the General Fund's combined assigned and unassigned fund balance falls below 2 percent, the FDOE may appoint a financial emergency board to operate the District.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Executive Director for Support Services, Baker County District School Board, 392 South Boulevard East, Macclenny, Florida 32063.

BASIC FINANCIAL STATEMENTS

BAKER COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2012

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 10,622,954.11	\$ 20,817.00
Investments	135,248.58	42,843.00
Due from Other Agencies	210,426.62	
Prepaid Items	3,291.22	
Inventories	157,198.92	
Restricted Investments	1,076,334.20	
Capital Assets:		
Nondepreciable Capital Assets	1,273,919.96	
Depreciable Capital Assets, Net	43,247,676.71	
TOTAL ASSETS	\$ 56,727,050.32	\$ 63,660.00
LIABILITIES		
Salaries and Benefits Payable	\$ 250,316.73	\$
Payroll Deductions and Withholdings	695,885.42	
Accounts Payable	143,438.10	
Due to Other Agencies	42,657.60	
Estimated Insurance Claims Payable	48,417.55	
Long-Term Liabilities:		
Portion Due Within One Year	956,666.67	
Portion Due After One Year	10,656,305.67	
Total Liabilities	12,793,687.74	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	37,218,243.36	
Restricted for:		
State Required Carryover Programs	147,095.28	
Debt Service	1,087,549.93	
Capital Projects	1,094,613.81	
Food Service	711,400.29	
Other Purposes		17,030.00
Unrestricted	3,674,459.91	46,630.00
Total Net Assets	43,933,362.58	63,660.00
TOTAL LIABILITIES AND NET ASSETS	\$ 56,727,050.32	\$ 63,660.00

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 21,302,176.52	\$ 117,441.20	\$	\$
Pupil Personnel Services	1,972,478.56			
Instructional Media Services	648,185.10			
Instruction and Curriculum Development Services	1,113,623.67			
Instructional Staff Training Services	357,873.36			
Instruction Related Technology	326,140.03			
School Board	605,509.63			
General Administration	305,318.09			
School Administration	1,965,783.90			
Facilities Acquisition and Construction	1,685,609.71			53,914.07
Fiscal Services	560,285.14			
Food Services	1,985,717.50	645,249.94	1,532,027.11	
Central Services	573,640.31			
Pupil Transportation Services	2,829,405.26			
Operation of Plant	3,210,452.37			
Maintenance of Plant	1,094,992.74			
Administrative Technology Services	358,416.56			
Community Services	195,224.68	230,340.20		
Unallocated Interest on Long-Term Debt	168,348.26			111,464.93
Unallocated Depreciation Expense*	1,531,601.59			
Total Primary Government	\$ 42,790,782.98	\$ 993,031.34	\$ 1,532,027.11	\$ 165,379.00
Component Unit				
Baker County Education Foundation, Inc.	\$ 52,573.00	\$ 0.00	\$ 0.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (21,184,735.32)	\$
(1,972,478.56)	
(648,185.10)	
(1,113,623.67)	
(357,873.36)	
(326,140.03)	
(605,509.63)	
(305,318.09)	
(1,965,783.90)	
(1,631,695.64)	
(560,285.14)	
191,559.55	
(573,640.31)	
(2,829,405.26)	
(3,210,452.37)	
(1,094,992.74)	
(358,416.56)	
35,115.52	
(56,883.33)	
(1,531,601.59)	
(40,100,345.53)	
	(52,573.00)
5,071,093.67	
1,202,210.26	
30,160,757.86	45,890.00
189,542.11	416.00
569,438.88	8,791.00
37,193,042.78	55,097.00
(2,907,302.75)	2,524.00
46,840,665.33	61,136.00
\$ 43,933,362.58	\$ 63,660.00

**BAKER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 8,508,768.47	\$	\$ 1,784,802.71	\$ 10,293,571.18
Investments	109,752.77		25,495.81	135,248.58
Due from Other Funds	112,797.89		51,461.06	164,258.95
Due from Other Agencies	117,832.46	26,474.49	66,119.67	210,426.62
Prepaid Items	3,291.22			3,291.22
Inventories	93,476.19		63,722.73	157,198.92
Restricted Investments			1,076,334.20	1,076,334.20
TOTAL ASSETS	<u>\$ 8,945,919.00</u>	<u>\$ 26,474.49</u>	<u>\$ 3,067,936.18</u>	<u>\$ 12,040,329.67</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 250,316.73	\$	\$	\$ 250,316.73
Payroll Deductions and Withholdings	618,652.08		77,233.34	695,885.42
Accounts Payable	129,086.91		14,351.19	143,438.10
Due to Other Funds	54,996.84	26,474.49	82,787.62	164,258.95
Due to Other Agencies	42,657.60			42,657.60
Total Liabilities	<u>1,095,710.16</u>	<u>26,474.49</u>	<u>174,372.15</u>	<u>1,296,556.80</u>
Fund Balances:				
Nonspendable:				
Inventory	93,476.19		63,722.73	157,198.92
Prepaid Items	3,291.22			3,291.22
Total Nonspendable Fund Balance	<u>96,767.41</u>		<u>63,722.73</u>	<u>160,490.14</u>
Restricted for:				
Food Service			647,677.56	647,677.56
State Required Carryover Programs	147,095.28			147,095.28
Debt Service			1,087,549.93	1,087,549.93
Capital Projects			1,094,613.81	1,094,613.81
Total Restricted Fund Balance	<u>147,095.28</u>		<u>2,829,841.30</u>	<u>2,976,936.58</u>
Committed to Contractual Agreements	<u>960,000.00</u>			<u>960,000.00</u>
Assigned to:				
Vocational Programs	281,512.60			281,512.60
School Accounts	199,600.08			199,600.08
Total Assigned Fund Balance	<u>481,112.68</u>			<u>481,112.68</u>
Unassigned Fund Balance	<u>6,165,233.47</u>			<u>6,165,233.47</u>
Total Fund Balances	<u>7,850,208.84</u>		<u>2,893,564.03</u>	<u>10,743,772.87</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,945,919.00</u>	<u>\$ 26,474.49</u>	<u>\$ 3,067,936.18</u>	<u>\$ 12,040,329.67</u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds \$ 10,743,772.87

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. 44,521,596.67

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 280,965.38

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 fiscal year-end consist of:

Bonds Payable	\$ 380,000.00	
Certificates of Participation Payable	6,923,353.31	
Compensated Absences Payable	3,212,019.03	
Other Postemployment Benefits Payable	<u>1,097,600.00</u>	<u>(11,612,972.34)</u>

Total Net Assets - Governmental Activities \$ 43,933,362.58

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental:				
Federal Direct	\$ 60,569.53	\$	\$	\$ 60,569.53
Federal Through State and Local	560,770.13	87,605.60	4,107,903.00	4,756,278.73
State	26,848,178.72		193,136.99	27,041,315.71
Local:				
Property Taxes	5,071,093.67		1,202,210.26	6,273,303.93
Impact Fees			115,079.68	115,079.68
Charges for Services - Food Service			645,249.94	645,249.94
Miscellaneous	906,192.86		63,716.57	969,909.43
Total Local Revenues	5,977,286.53		2,026,256.45	8,003,542.98
Total Revenues	33,446,804.91	87,605.60	6,327,296.44	39,861,706.95
Expenditures				
Current - Education:				
Instruction	19,916,699.87	52,301.00	1,292,194.79	21,261,195.66
Pupil Personnel Services	1,544,899.78	5,371.15	418,194.39	1,968,465.32
Instructional Media Services	646,879.88			646,879.88
Instruction and Curriculum Development Services	674,469.01	99.66	436,924.93	1,111,493.60
Instructional Staff Training Services	121,797.67	12,066.37	223,428.28	357,292.32
Instruction Related Technology	248,455.23		77,198.75	325,653.98
School Board	413,669.21			413,669.21
General Administration	249,233.86	235.10	55,422.03	304,890.99
School Administration	1,946,721.75	14,818.00		1,961,539.75
Facilities Acquisition and Construction	49,286.00		1,636,323.71	1,685,609.71
Fiscal Services	559,128.67			559,128.67
Food Services	9,932.70		1,973,867.31	1,983,800.01
Central Services	526,721.19	2,714.32	22,571.14	552,006.65
Pupil Transportation Services	2,366,236.07		80,152.58	2,446,388.65
Operation of Plant	3,207,637.10			3,207,637.10
Maintenance of Plant	1,093,777.39			1,093,777.39
Administrative Technology Services	358,015.00			358,015.00
Community Services	195,005.70			195,005.70
Fixed Capital Outlay:				
Other Capital Outlay			319,425.82	319,425.82
Debt Service:				
Principal	466,666.67		90,000.00	556,666.67
Interest and Fiscal Charges	144,783.33		23,789.72	168,573.05
Total Expenditures	34,740,016.08	87,605.60	6,649,493.45	41,477,115.13
Deficiency of Revenues Over Expenditures	(1,293,211.17)		(322,197.01)	(1,615,408.18)
Other Financing Sources (Uses)				
Refunding Bonds Issued			80,000.00	80,000.00
Premium on Refunding Bonds			6,408.50	6,408.50
Payments to Refunded Bond Escrow Agent			(86,183.71)	(86,183.71)
Transfers In			164,411.00	164,411.00
Proceeds from Sale of Capital Assets	850.00			850.00
Insurance Loss Recoveries	16,288.00			16,288.00
Transfers Out			(164,411.00)	(164,411.00)
Total Other Financing Sources (Uses)	17,138.00		224.79	17,362.79
Net Change in Fund Balances	(1,276,073.17)		(321,972.22)	(1,598,045.39)
Fund Balances, Beginning	9,126,282.01		3,215,536.25	12,341,818.26
Fund Balances, Ending	\$ 7,850,208.84	\$ 0.00	\$ 2,893,564.03	\$ 10,743,772.87

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ (1,598,045.39)

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. (1,591,879.06)

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

Refunding Bonds Issued	\$	(80,000.00)	
Refunded Bonds Retired		80,000.00	
Bonds Principal Repayments		90,000.00	
Certificates of Participation Repayments		466,666.67	556,666.67

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (66,373.03)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (191,500.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (16,171.94)

Change in Net Assets - Governmental Activities **\$ (2,907,302.75)**

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2012**

	Governmental Activities - Internal Service Fund
	<u> </u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 329,382.93
	<u> </u>
LIABILITIES	
Current Liabilities:	
Estimated Insurance Claims Payable	\$ 48,417.55
	<u> </u>
NET ASSETS	
Unrestricted	<u>280,965.38</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 329,382.93</u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Premium Revenues	\$ 484,071.75
	<u> </u>
OPERATING EXPENSES	
Insurance Claims	504,878.97
	<u> </u>
Operating Loss	(20,807.22)
	<u> </u>
NONOPERATING REVENUES	
Interest Revenue	4,635.28
	<u> </u>
Change in Net Assets	(16,171.94)
	<u> </u>
Total Net Assets - Beginning	297,137.32
	<u> </u>
Total Net Assets - Ending	\$ 280,965.38
	<u> </u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012**

	Governmental Activities - Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Premiums	\$ 484,071.75
Cash Payments for Insurance Claims	<u>(500,471.90)</u>
Net Cash Used by Operating Activities	<u>(16,400.15)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>4,635.28</u>
Net Decrease in Cash and Cash Equivalents	(11,764.87)
Cash and Cash Equivalents, Beginning	<u>341,147.80</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 329,382.93</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ <u>(20,807.22)</u>
Adjustment to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Increase in Estimated Insurance Claims Payable	<u>4,407.07</u>
Net Cash Used by Operating Activities	<u><u>\$ (16,400.15)</u></u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 796,610.00</u>
LIABILITIES	
Accounts Payable	\$ 8,321.00
Internal Accounts Payable	<u>788,289.00</u>
TOTAL LIABILITIES	<u>\$ 796,610.00</u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Baker County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Baker County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Baker County.

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

Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. The BCSB Leasing Corporation (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the District's other component unit, the Baker County Education Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to provide charitable and educational aid to the District; to promote education, and to encourage research, learning, and dissemination of information for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit. The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2012. The audit report is filed in the District's administrative offices.

Basis of Presentation:

- **Government-wide Financial Statements** - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District and its component unit.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

The proprietary fund is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund are charges for employee health insurance premiums. Operating expenses include insurance claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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

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

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

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally are United States government instrumentality obligations consisting of Federal Home Loan Mortgage Corporation (FHLMC) Discount Notes and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average invoice price, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end physical inventories.

Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

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

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

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

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

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. 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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

Budgetary Information. 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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 223,075.92
Fund B	5.73 Year Average	124,032.85
Debt Service Accounts	6 Months	11,215.73
United States Instrumentality Obligations:		
FHLMC Discount Notes (2)	12-21-2012	1,076,334.20
Total Investments, Reporting Entity		<u>\$ 1,434,658.70</u>

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

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

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. 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. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other 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 does not have a formal investment policy that limits its investment choices.

The District's investments in the 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 the SBA for managing interest rate risk and credit risk for this account.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The District's investment in Florida PRIME is rated AAAm by Standard & Poor's Ratings Services. Fund B is unrated.

The District's investment in United States government instrumentality obligations is authorized under a forward delivery agreement with the QZABs paying agent. The investments must have a maturity date on or before December 21, 2021. The District's investment in FHLMC Discount Notes was rated A-1+ by Standard & Poor's Ratings Services and P-1 by Moody's Investors Service.

➤ **Custodial Credit Risk**

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

United States government instrumentality obligations are held by the trustee in the name of the District.

➤ **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in FHLMC Discount Notes, a government sponsored enterprise of the United States Federal government. These investments are 89 percent of the District's total investments and 98 percent of the investments in the aggregate remaining fund information. This investment is made pursuant to a forward delivery agreement related to the District's QZABs (see note 5).

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,273,919.96	\$	\$	\$ 1,273,919.96
Total Capital Assets Not Being Depreciated	1,273,919.96			1,273,919.96
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,473,398.86			3,473,398.86
Buildings and Fixed Equipment	63,399,716.90			63,399,716.90
Furniture, Fixtures, and Equipment	1,137,649.33	80,276.82	80,669.00	1,137,257.15
Motor Vehicles	5,281,099.01	238,440.00	261,467.00	5,258,072.01
Audio Visual Materials and Computer Software	569,208.60	709.00		569,917.60
Total Capital Assets Being Depreciated	73,861,072.70	319,425.82	342,136.00	73,838,362.52
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,421,146.40	125,950.25		2,547,096.65
Buildings and Fixed Equipment	22,022,388.68	1,307,967.02		23,330,355.70
Furniture, Fixtures, and Equipment	1,016,879.96	61,623.42	80,669.00	997,834.38
Motor Vehicles	3,118,757.01	379,703.29	261,467.00	3,236,993.30
Audio Visual Materials and Computer Software	442,344.88	36,060.90		478,405.78
Total Accumulated Depreciation	29,021,516.93	1,911,304.88	342,136.00	30,590,685.81
Total Capital Assets Being Depreciated, Net	44,839,555.77	(1,591,879.06)		43,247,676.71
Governmental Activities Capital Assets, Net	\$ 46,113,475.73	\$ (1,591,879.06)	\$ 0.00	\$ 44,521,596.67

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 379,703.29
Unallocated	1,531,601.59
Total Depreciation Expense - Governmental Activities	\$ 1,911,304.88

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

5. CERTIFICATES OF PARTICIPATION

Certificates of participation at June 30, 2012, are as follows:

Series	Original Amount	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
Series 2005A	\$ 7,000,000.00	\$ 3,733,333.31	3.65	2020
Series 2005-QZAB	3,190,020.00	3,190,020.00	(1)	2021
Total Certificates of Participation	<u>\$ 10,190,020.00</u>	<u>\$ 6,923,353.31</u>		

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

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

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

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

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

Series 2005-QZAB Certificates. The Series 2005-QZAB certificates were issued under a special program whereby the certificates, bearing an original issue date of December 21, 2005, will mature in full on December 21, 2021, for the original \$3,190,020 issue amount. There is no interest cost for borrowing moneys under this program. The financing proceeds were used for facilities upgrades, safety improvements, transportation equipment, and technology improvements at several designated schools, which were leased by the District from the Leasing Corporation. The schools designated for the improvements and equipment include Baker County Middle, Westside Elementary, Keller Intermediate, and Macclenny Elementary Schools. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$164,411 are required for 16 consecutive years beginning December 21, 2006. The forward delivery agreement provides a

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

guaranteed investment return whereby the required deposits, along with accrued interest, will be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the certificates mature. The Series 2005-QZAB issue is secured by the assets held under the trust agreement in the event of cancellation or default.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 594,416.67	\$ 466,666.67	\$ 127,750.00
2014	577,383.34	466,666.67	110,716.67
2015	560,350.00	466,666.67	93,683.33
2016	543,316.67	466,666.67	76,650.00
2017	526,283.34	466,666.67	59,616.67
2018-2020	1,476,650.01	1,399,999.96	76,650.05
Total Minimum Lease Payments	<u>\$4,278,400.03</u>	<u>\$3,733,333.31</u>	<u>\$ 545,066.72</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A	\$ 300,000	5.0	2017
Series 2011A, Refunding	<u>80,000</u>	4.0 - 5.0	2015
Total Bonds Payable	<u>\$ 380,000</u>		

These bonds were issued by the State Board of Education on behalf of the District 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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 108,658.88	\$ 90,000.00	\$ 18,658.88
2014	114,500.00	100,000.00	14,500.00
2015	104,500.00	95,000.00	9,500.00
2016	84,750.00	80,000.00	4,750.00
2017	15,750.00	15,000.00	750.00
Total	<u>\$ 428,158.88</u>	<u>\$ 380,000.00</u>	<u>\$ 48,158.88</u>

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 470,000.00	\$ 80,000.00	\$ 170,000.00	\$ 380,000.00	\$ 90,000.00
Certificates of Participation Payable	7,390,019.98		466,666.67	6,923,353.31	466,666.67
Compensated Absences Payable	3,145,646.00	421,425.44	355,052.41	3,212,019.03	400,000.00
Other Postemployment Benefits Payable	906,100.00	593,400.00	401,900.00	1,097,600.00	
Total Governmental Activities	<u>\$ 11,911,765.98</u>	<u>\$ 1,094,825.44</u>	<u>\$ 1,393,619.08</u>	<u>\$ 11,612,972.34</u>	<u>\$ 956,666.67</u>

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

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 112,797.89	\$ 54,996.84
Federal Economic Stimulus		26,474.49
Nonmajor Governmental	51,461.06	82,787.62
Total	<u>\$ 164,258.95</u>	<u>\$ 164,258.95</u>

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

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

Funds	Interfund	
	Transfers In	Transfers Out
Nonmajor Governmental	\$ 164,411	\$ 164,411

The transfer was from the nonmajor Capital Projects - Local Capital Improvement Fund to the nonmajor Debt Service - Other Debt Service Fund for the required annual QZAB sinking fund deposit.

9. FUND BALANCE REPORTING

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

➤ **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.

➤ **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 the 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. At its June 4, 2012, meeting, the Board approved committing \$960,000 in the General Fund for potential repayment of the 3 percent employee retirement contribution in the event that the law is overturned.

➤ **Assigned**

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

➤ **Unassigned**

The portion of fund balance that is 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.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$20,010,830.00
Categorical Educational Program - Class Size Reduction	5,336,569.00
Voluntary Prekindergarten Program	395,923.93
Preschool Projects	181,453.40
Workforce Development Program	180,185.00
School Recognition	170,018.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	165,379.00
Adults with Disabilities	161,126.13
Full Service Schools	49,225.00
Food Service Supplement	29,619.00
Miscellaneous	360,987.25
 Total	 <u><u>\$27,041,315.71</u></u>

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.335	\$ 4,475,351.47
Basic Discretionary Local Effort	0.748	627,471.96
Critical Operating Needs	0.250	209,716.56
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	1,258,299.38
 Total	 <u>7.833</u>	 <u>\$ 6,570,839.37</u>

12. FLORIDA RETIREMENT SYSTEM

Essentially all regular employees of the District are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable 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 the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 the Investment Plan.

(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 including employee contributions for the fiscal year ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$2,052,309.35, \$2,435,959.33, and \$1,815,493.59, respectively, which were equal to the required contributions for each fiscal year.

There were 48 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$123,809.03, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the 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.

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, dental, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB 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 OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board approval on July 16, 2007. Under this incentive, retirees receive contributions based on their years of service ranging from \$169.81 per month for 10 to 19 years of service, to \$212.56 per month for 30 years or more of service. Retirees are assumed to enroll in the

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended by the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 145 retirees received other postemployment benefits. The District provided required contributions of \$401,900 toward the annual OPEB cost, net of retiree contributions totaling \$297,502, which represents 1.4 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 292,900
Amortization of Unfunded Actuarial	
Accrued Liability	283,700
Interest on Normal Cost and Amortization	<u>11,400</u>
Annual Required Contribution	588,000
Interest on Net OPEB Obligation	36,200
Adjustment to Annual Required Contribution	<u>(30,800)</u>
Annual OPEB Cost (Expense)	593,400
Contribution Toward the OPEB Cost	<u>(401,900)</u>
Increase in Net OPEB Obligation	191,500
Net OPEB Obligation, Beginning of Year	<u>906,100</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,097,600</u></u>

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 736,607	51.0%	\$ 700,684
2010-11	572,216	64.1%	906,100
2011-12	593,400	67.7%	1,097,600

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

Actuarial valuations of an ongoing OPEB 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 OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District's OPEB actuarial valuation as of July 1, 2010, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2011, and estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and annual healthcare average costs and premiums are assumed to increase at a rate of 10 percent initially for the 2010-11 fiscal year, increase by 1 percent per year for 2 years, then decrease by 0.5 percent per year to an ultimate rate of 5 percent after 16 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

14. RISK MANAGEMENT PROGRAMS

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

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

The claims liability of \$48,417.55 is reported in the internal service fund at June 30, 2012, to cover estimated incurred, but not reported, insurance claims payable of the employee supplemental insurance plans. The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2010-11	\$ 43,112.44	\$ 427,301.90	\$(426,403.86)	\$ 44,010.48
2011-12	44,010.48	504,878.97	(500,471.90)	48,417.55

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

BAKER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 40,000.00	\$ 60,569.53	\$ 20,569.53
Federal Through State and Local	280,000.00	280,000.00	560,770.13	280,770.13
State	27,059,333.00	27,059,333.00	26,848,178.72	(211,154.28)
Local:				
Property Taxes	5,312,539.00	5,312,539.00	5,071,093.67	(241,445.33)
Miscellaneous	700,000.00	700,000.00	906,192.86	206,192.86
Total Local Revenues	6,012,539.00	6,012,539.00	5,977,286.53	(35,252.47)
Total Revenues	33,391,872.00	33,391,872.00	33,446,804.91	54,932.91
Expenditures				
Current - Education:				
Instruction	20,801,047.62	20,801,047.62	19,916,699.87	884,347.75
Pupil Personnel Services	1,647,604.58	1,647,604.58	1,544,899.78	102,704.80
Instructional Media Services	572,548.15	687,548.15	646,879.88	40,668.27
Instruction and Curriculum Development Services	691,416.04	766,416.04	674,469.01	91,947.03
Instructional Staff Training Services	171,232.51	171,232.51	121,797.67	49,434.84
Instruction Related Technology	316,161.00	316,161.00	248,455.23	67,705.77
School Board	575,679.00	575,679.00	413,669.21	162,009.79
General Administration	307,697.00	307,697.00	249,233.86	58,463.14
School Administration	2,005,102.61	2,005,102.61	1,946,721.75	58,380.86
Facilities Acquisition and Construction	37,300.00	62,300.00	49,286.00	13,014.00
Fiscal Services	660,071.00	660,071.00	559,128.67	100,942.33
Food Services	11,722.00	11,722.00	9,932.70	1,789.30
Central Services	517,655.56	537,655.56	526,721.19	10,934.37
Pupil Transportation Services	2,466,696.00	2,516,696.00	2,366,236.07	150,459.93
Operation of Plant	4,070,276.84	3,715,276.84	3,207,637.10	507,639.74
Maintenance of Plant	1,232,695.71	1,232,695.71	1,093,777.39	138,918.32
Administrative Technology Services	506,500.00	506,500.00	358,015.00	148,485.00
Community Services	265,380.62	265,380.62	195,005.70	70,374.92
Debt Service:				
Principal	466,666.67	466,666.67	466,666.67	
Interest and Fiscal Charges	85,167.33	155,167.33	144,783.33	10,384.00
Total Expenditures	37,408,620.24	37,408,620.24	34,740,016.08	2,668,604.16
Excess (Deficiency) of Revenues Over Expenditures	(4,016,748.24)	(4,016,748.24)	(1,293,211.17)	2,723,537.07
Other Financing Sources				
Proceeds from Sale of Capital Assets			850.00	850.00
Insurance Loss Recoveries			16,288.00	16,288.00
Total Other Financing Sources			17,138.00	17,138.00
Net Change in Fund Balances	(4,016,748.24)	(4,016,748.24)	(1,276,073.17)	2,740,675.07
Fund Balances, Beginning	9,126,282.01	9,126,282.01	9,126,282.01	
Fund Balances, Ending	\$ 5,109,533.77	\$ 5,109,533.77	\$ 7,850,208.84	\$ 2,740,675.07

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 61,131.51	\$ 87,759.39	\$ 87,605.60	\$ (153.79)
61,131.51	87,759.39	87,605.60	(153.79)
52,324.48	52,301.00	52,301.00	
5,041.39	5,371.15	5,371.15	
76.18	99.66	99.66	
3,489.46	13,289.09	12,066.37	1,222.72
200.00	235.10	235.10	
	14,818.00	14,818.00	
	1,645.39	2,714.32	(1,068.93)
61,131.51	87,759.39	87,605.60	153.79
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

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

Note: (1) The District's OPEB actuarial valuation used the projected unit credit cost method to estimate the actuarial accrued liability.

**BAKER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 125,330.51
National School Lunch Program	10.555	300, 350	408,545.58
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	185,623.96
National School Lunch Program	10.555 (2)(A)	300, 350	771,304.15
Summer Food Service Program for Children	10.559	323	<u>11,011.91</u>
Total Child Nutrition Cluster			<u>1,501,816.11</u>
Florida Department of Banking and Finance:			
Schools and Roads - Grants to States	10.665	None	<u>134,516.41</u>
Total United States Department of Agriculture			<u>1,636,332.52</u>
United States Department of Labor:			
Indirect:			
WIA Cluster:			
First Coast Workforce Development Board, Inc.:			
WIA Youth Activities	17.259	None	<u>257,037.01</u>
United States General Services Administration:			
Indirect:			
Florida Department of Management Services:			
Donation of Federal Surplus Personal Property	39.003 (2)(B)	None	<u>5,195.38</u>
United States Department of Education:			
Indirect:			
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 228	919,023.68
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	<u>8,730.45</u>
Total Title I, Part A Cluster			<u>927,754.13</u>
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,121,213.41
Special Education - Preschool Grants	84.173	267	44,406.09
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	48,199.78
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	<u>4,210.88</u>
Total Special Education Cluster			<u>1,218,030.16</u>
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	<u>35,715.21</u>
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	122	<u>86,275.69</u>
State Fiscal Stabilization Fund Cluster:			
Putnam District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	None	<u>13,204.00</u>
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	165,380.66
Career and Technical Education - Basic Grants to States	84.048	161	84,277.90
Improving Teacher Quality State Grants	84.367	224	149,794.25
ARRA - State Fiscal Stabilization (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RG311	11,656.49
Education Jobs Fund	84.410	541	<u>14,818.00</u>
Total United States Department of Education			<u>2,706,906.49</u>
United States Department of Defense:			
Direct:			
Air Force Junior Reserve Officers Training Corps	None	N/A	<u>60,569.53</u>
Total Expenditures of Federal Awards			<u>\$ 4,666,040.93</u>

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

(2) Noncash Assistance.

(A) National School Lunch Program - Includes \$112,397.14 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) Donation of Federal Surplus Personal Property - Represents 23.3 percent of the original acquisition costs of the donated Federal surplus personal property obtained during the fiscal year.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Baker County District School Board as of and for the fiscal year ended June 30, 2012, 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 includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Baker County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

Our **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*** 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
January 9, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

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

Compliance

We have audited the Baker County District School Board's compliance with the types of compliance requirements described in the *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, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct

and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
January 9, 2013

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**BAKER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: 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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based on district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for after school activities; 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.b., Florida Statutes.

Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-113 and 2012-112.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Architect Continuing Contract

Pursuant to Section 287.055(2)(g), Florida Statutes, the District may enter into a continuing contract for architectural services of construction projects in which the estimated construction cost of each individual project under contract does not exceed \$2 million. Also, such contracts may be for a fixed term or for an indefinite period with a contractual termination clause. To enter such contracts, the District must select in order of preference no fewer than three firms deemed to be the most highly qualified to perform architectural services, considering such factors as personnel ability, whether a firm is a certified minority business, past performance, willingness to meet time and budget requirements, and other factors.

The District entered into contracts for several years with an architectural firm for fixed terms, the most recent contract ending November 21, 2011. On November 22, 2011, the Board entered into a three-year continuing contract with the firm for individual construction projects with costs that would not exceed \$2 million; however, the contract was entered into without ranking and selecting the firm using the competitive selection process prescribed in Section 287.055, Florida Statutes. During the 2011-12 fiscal year, the architectural firm provided services for four construction projects with individual project costs of \$42,298 to \$1,233,300, and the architect received fees ranging from \$2,485 to \$24,099, or a total of \$40,205. District personnel indicated that the contract was entered into without competitive negotiation because the architect fees remained the same; however, absent such negotiations, the District cannot demonstrate that the services are competitively acquired and obtained at the lowest and best price consistent with desired quality.

Recommendation: The District should ensure that architects are ranked and competitively selected using the process prescribed by Section 287.055, Florida Statutes.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2012-112, except that current Finding No. 1 was also noted as Finding No. 2 in our report Nos. 2011-113 and 2012-112.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

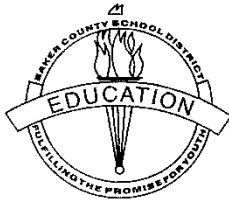
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*BAKER COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

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
2012-112		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



Baker County Public Schools

270 South Boulevard East
Macclesney, Florida 32063

Telephone: (904) 259-6251

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Fax: (904) 259-1387

Sherrie Raulerson
Superintendent of Schools
"Where Children Are First"



December 5, 2012

Mr. David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. Martin:

Thank you for your excellent audit. We are pleased once again that there were no material findings. In response to the "Additional Matters" noted for the fiscal year ending June 30, 2012, we are taking the following corrective action:

Finding No. 1: Compensation and Salary Schedules

The District will continue working on differentiated pay by formally identifying those areas that are already being paid in critical shortage areas and level of job performance difficulties for instructional personnel.

Finding No. 2: Architect Continuing Contract

After the end of our three year contract with our current architect, the District will rank and competitively select an architect.

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

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

Sincerely,

Sherrie Raulerson
Superintendent of Schools

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

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District 1

Richard Dean Griffis
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