

PUTNAM 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>
Nichole M. Cummings	1
Lisa Parsons	2
Terry Wright, Vice Chair	3
Kathleen Jorgensen	4
C. L. Overturf, Jr., Chair	5

Thomas D. Townsend, Superintendent

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

The audit team leader was Dennis W. Gay, CPA, and the audit was supervised by Randy R. Arend, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. 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.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements were needed in the bank account reconciliation process.

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. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: District records did not always evidence use of ad valorem tax levy proceeds and fuel tax refunds for authorized purposes.

Finding No. 4: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 5: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 6: 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. 7: Controls over procurement of contractual services needed to be enhanced.

Finding No. 8: The District needed to enhance its controls over additional work assignments.

Finding No. 9: Controls over purchasing card expenditures could be enhanced.

Finding No. 10: District records did not evidence that proceeds from the sale of scrap metal totaling \$3,766.43 were used for authorized public purposes.

Finding No. 11: District records did not evidence that the Board evaluated two charter school applicants using criteria established by the Florida Department of Education.

Finding No. 12: Some inappropriate information technology (IT) access privileges existed, indicating a need for periodic District review of user access privileges. In addition, the District had not developed written policies and procedures for routine monitoring of the financial application security logs.

Finding No. 13: Contrary to the requirements of the State of Florida *General Records Schedule*, the District did not retain some network and application access control records.

Finding No. 14: The District did not timely deactivate the IT access privileges of some former employees.

Finding No. 15: Certain District IT security controls related to user authentication and data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, Special Education Cluster, Twenty-First Century, Improving Teacher Quality, Teacher Incentive Fund, Race-to-the-Top, and Government Services programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Improving Teacher Quality and Teacher Incentive Fund programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: Certain expenditures for various Federal programs were not always properly approved, documented, or supported, resulting in \$261,955 of questioned costs.

Federal Awards Finding No. 2: The District's local fiscal effort for the Special Education program services decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of \$83,226.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-167.

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.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam County District School Board, as of and for the fiscal year ended June 30, 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 8 percent of the assets and 20 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Children's Reading Center Charter School, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Putnam County District School Board as of June 30, 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 Putnam

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (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
March 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Putnam County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 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:

- In total, net assets decreased \$8,205,534.65, which represents a 9.2 percent decrease from the 2010-11 fiscal year.
- General revenues total \$96,059,724.29, or 77.9 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$27,192,279.79, or 22.1 percent of all revenues.
- Expenses total \$131,457,538.73. Only \$27,192,279.79 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenses exceeded total revenues by \$8,205,534.65.
- The fund balance of the General Fund totals \$9,337,951.46, or 13.1 percent of total General Fund revenues. The fund balance includes \$551,387.10 of nonspendable funds, \$432,292.31 of restricted funds, \$1,913,094.49 of assigned funds, and \$6,441,177.56 of unassigned funds. The total assigned and unassigned fund balances of the General Fund, representing the net current financial resources available for general appropriation by the Board, are \$8,354,272.05, or 11.8 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-12	6-30-11	6-30-12	6-30-11	6-30-12	6-30-11
Current and Other Assets	\$ 19,858,726.37	\$ 21,438,120.52	\$ 40,764,823.95	\$ 43,224,486.50	\$ 60,623,550.32	\$ 64,662,607.02
Capital Assets	49,896,672.20	53,684,197.19	2,464,309.84	3,004,925.40	52,360,982.04	56,689,122.59
Total Assets	69,755,398.57	75,122,317.71	43,229,133.79	46,229,411.90	112,984,532.36	121,351,729.61
Long-Term Liabilities	2,121,591.10	2,943,615.34	624,896.57	1,467,146.26	2,746,487.67	4,410,761.60
Other Liabilities	18,980,975.49	17,599,113.14	9,881,120.53	9,760,371.55	28,862,096.02	27,359,484.69
Total Liabilities	21,102,566.59	20,542,728.48	10,506,017.10	11,227,517.81	31,608,583.69	31,770,246.29
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	47,781,672.20	51,070,318.44	2,464,309.84	3,004,925.40	50,245,982.04	54,075,243.84
Restricted	8,832,980.20	8,456,683.49	24,551,406.51	25,743,507.91	33,384,386.71	34,200,191.40
Unrestricted (Deficit)	(7,961,820.42)	(4,947,412.70)	5,707,400.34	6,253,460.78	(2,254,420.08)	1,306,048.08
Total Net Assets	\$ 48,652,831.98	\$ 54,579,589.23	\$ 32,723,116.69	\$ 35,001,894.09	\$ 81,375,948.67	\$ 89,581,483.32

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets may be used to meet the 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		Business-Type Activities		Total	
	6-30-12	6-30-11	6-30-12	6-30-11	6-30-12	6-30-11
Program Revenues:						
Charges for Services	\$ 958,655.05	\$ 961,365.44	\$ 19,491,754.75	\$ 20,721,894.17	\$ 20,450,409.80	\$ 21,683,259.61
Operating Grants and Contributions	5,804,652.54	5,601,372.62			5,804,652.54	5,601,372.62
Capital Grants and Contributions	937,217.45	778,320.23			937,217.45	778,320.23
General Revenues:						
Property Taxes, Levied for Operational Purposes	21,741,934.68	24,699,379.99			21,741,934.68	24,699,379.99
Property Taxes, Levied for Capital Projects	5,477,773.71	5,823,633.33			5,477,773.71	5,823,633.33
Grants and Contributions Not Restricted to Specific Programs	61,373,222.66	70,183,374.49	5,573,239.00	8,395,959.87	66,946,461.66	78,579,334.36
Unrestricted Investment Earnings	34,581.92	54,797.85	94,977.49	234,764.49	129,559.41	289,562.34
Miscellaneous	1,763,994.83	1,344,459.31			1,763,994.83	1,344,459.31
Total Revenues	98,092,032.84	109,446,703.26	25,159,971.24	29,352,618.53	123,252,004.08	138,799,321.79
Functions/Program Expenses:						
Instruction	52,752,540.33	56,853,233.96			52,752,540.33	56,853,233.96
Pupil Personnel Services	4,397,372.76	4,564,880.74			4,397,372.76	4,564,880.74
Instructional Media Services	2,394,763.43	2,861,741.22			2,394,763.43	2,861,741.22
Instruction and Curriculum Development Services	3,382,117.64	4,117,933.99			3,382,117.64	4,117,933.99
Instructional Staff Training Services	2,151,046.22	2,722,358.07			2,151,046.22	2,722,358.07
Instruction Related Technology	167,471.28	41,281.83			167,471.28	41,281.83
School Board	566,467.70	535,841.29			566,467.70	535,841.29
General Administration	2,418,901.10	1,901,786.37			2,418,901.10	1,901,786.37
School Administration	5,643,448.31	6,171,666.79			5,643,448.31	6,171,666.79
Facilities Acquisition and Construction	488,720.69	606,005.66			488,720.69	606,005.66
Fiscal Services	794,517.23	780,339.95			794,517.23	780,339.95
Food Services	6,087,401.96	6,114,575.90			6,087,401.96	6,114,575.90
Central Services	1,168,329.30	1,016,195.13			1,168,329.30	1,016,195.13
Pupil Transportation Services	5,811,403.23	5,821,387.89			5,811,403.23	5,821,387.89
Operation of Plant	6,744,264.40	7,157,582.09			6,744,264.40	7,157,582.09
Maintenance of Plant	3,277,873.21	3,326,891.13			3,277,873.21	3,326,891.13
Administrative Technology Services	455,034.91	526,825.03			455,034.91	526,825.03
Community Services	235,305.24	205,029.28			235,305.24	205,029.28
Unallocated Interest on Long-Term Debt	80,047.72	135,053.45			80,047.72	135,053.45
Unallocated Depreciation Expense	5,001,763.43	5,537,597.56			5,001,763.43	5,537,597.56
NEFEC Employee Benefits Program			85,643.87	81,639.20	85,643.87	81,639.20
NEFEC Risk Management Program			15,046,714.72	12,159,337.52	15,046,714.72	12,159,337.52
NEFEC Federal Economic Stimulus			874,770.49	1,890,595.79	874,770.49	1,890,595.79
NEFEC Other Programs			11,431,619.56	13,210,621.67	11,431,619.56	13,210,621.67
Total Functions/Program Expenses	104,018,790.09	110,998,207.33	27,438,748.64	27,342,194.18	131,457,538.73	138,340,401.51
Increase (Decrease) in Net Assets	\$ (5,926,757.25)	\$ (1,551,504.07)	\$ (2,278,777.40)	\$ 2,010,424.35	\$ (8,205,534.65)	\$ 458,920.28

For governmental-type activities, the largest revenue source is the State of Florida. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. FEFP revenues decreased by \$1,109,340, or 3.3 percent, while other State revenues, primarily for class size reduction, also decreased by \$229,346.13, or 1.5 percent, from the previous fiscal year. This resulted in a total decrease in State revenues of \$1,338,686.13, or 2.7 percent. The decrease in grants and contributions not restricted to specific programs was primarily due to the decrease in State revenues and a reduction in Federal economic stimulus funding for the 2011-12 fiscal year.

Property tax revenues decreased by \$3,303,304.93, or 10.8 percent, as a result of a decrease in taxable assessed values and a 5.1 percent decrease in the total millage rate.

Total governmental expenses for the 2011-12 fiscal year decreased by \$6,979,417.24, or 6.3 percent, from the prior fiscal year. Instruction expenses represent 50.7 percent of total governmental expenses in the 2011-12 fiscal year, which was a decrease of \$4,100,693.63, or 7.2 percent, from the prior fiscal year. The decrease in expenses was mainly the result of Legislative action to reduce employer contribution rates to the Florida Retirement System and expiration of Federal stimulus grants.

For the business-type activities, charges for services decreased \$1,230,139.42 due mainly to a decrease in premium revenues. Additionally, grants and contributions not restricted to specific programs decreased \$2,822,720.87, mainly because of decreased Federal and State grants. NEFEC Risk Management Program Fund expenses increased \$2,887,377.20, due mainly to increases in insurance claims and policyholder dividends paid; NEFEC Federal Economic Stimulus Fund expenses decreased \$1,015,825.30, due mainly to a decrease in Federal economic stimulus expenses resulting from the expiration of these grants; and NEFEC Other Programs Fund expenses decreased \$1,779,002.11, due mainly to a decrease in other purchased services expenses associated with decreases in Federal and State grant funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, total fund balance is \$9,337,951.46. Of the total fund balance, \$551,387.10 is nonspendable; \$6,441,177.56 is unassigned; \$1,913,094.49 is assigned; and \$432,292.31 is restricted. Total fund balance decreased by \$2,405,401.02, or 20.5 percent, during the fiscal year primarily due to decreases in State revenues and local property taxes.

The Florida Department of Education (FDOE) requires school districts to report the Special Revenue – Federal Economic Stimulus Fund as a major fund to account for certain Federal grant program resources related to Federal economic stimulus programs. During the 2011-12 fiscal year, this fund reported revenues and expenditures of \$828,980.97 each, and the funding was mainly used for furniture and equipment, materials and supplies, travel, and salaries for the Race-to-the-Top and special education programs. Revenues and expenditures each decreased \$7,881,661.34, or 90.5 percent from the prior fiscal year, because most Federal stimulus programs expired during the 2010-11 fiscal year. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Special Revenue – Other Fund accounts for Federal grants administered through the FDOE and United States Department of Education cash advance systems. For the 2011-12 fiscal year, this fund reported revenues and expenditures of \$12,360,980.06 each. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,515,173.11, which is restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balances, \$46,384.02 was encumbered for specific projects. Fund balance increased by \$1,510,012.76 in anticipation of renovation and remodeling projects planned for the 2012-13 fiscal year.

Proprietary Funds

The enterprise funds have combined net assets of \$32,723,116.69, representing a decrease of \$2,278,777.40 in net assets during the current fiscal year. The main causes for the decrease are:

- NEFEC Risk Management Program Fund net assets decreased by \$1,168,961.33 from the 2010-11 fiscal year. The decrease is primarily attributable to increases in claims expense and policyholder dividends paid. Premiums charged are based on estimates to cover program expenses and to maintain adequate reserves.

- NEFEC Federal Economic Stimulus Fund is also subject to the above-described reporting and accounting requirements that apply to the Special Revenue – Federal Economic Stimulus Fund. During the 2011-12 fiscal year, the NEFEC Federal Economic Stimulus Fund reported revenues and expenses of \$874,770.49 each, and funding was used mainly for salaries and contracted services. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.
- NEFEC Other Programs Fund net assets decreased by \$1,084,080.29 from the 2010-11 fiscal year. The decrease is primarily attributable to a decrease in nonoperating revenues, consisting mainly of Federal and State grant revenues.
- The internal service fund's reported revenues and expenses pertain to the District's health insurance program. The fund's financial position did not significantly change from the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$1,081,790.89, or 1.6 percent. At the same time, final appropriations are less than the original budgeted amounts by \$1,145,265.66. Budget revisions were due primarily to changes in estimated State funding levels and estimated instruction-related activities, operation of plant, and school Board expenditures.

Actual revenues are \$905,216.76, or 1.3 percent, more than final budget amounts while actual expenditures are \$2,495,602.37, or 3.2 percent, less than final budget amounts. The excess actual revenues was primarily due to local sources and the expenditures less than final budget was primarily due to continued cost containment measures, such as administrative personnel salary and benefit reductions and consolidation of certain support functions, implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$3,785,339.61.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities at June 30, 2012, is \$52,360,982.04. This includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software.

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

Long-Term Debt

At June 30, 2012, the District has outstanding bonds payable of \$2,115,000. During the current fiscal year, bond principal totaling \$325,000 was retired and the District paid off its capital lease.

During the current fiscal year, the District participated in the State Board of Education's issuance of State School Bonds, Series 2011A Refunding Bonds, in the amount of \$625,000, which 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. Proceeds were used to refund the Series 2002B bonds.

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

OTHER MATTERS OF SIGNIFICANCE

The District's economic condition is closely tied to that of the State of Florida, which is facing uncertain economic times. The State of Florida provides approximately 66 percent of total General Fund revenues. The primary source of State revenue is the FEFP, which derives its funding from the State sales tax, which is an unstable revenue stream. Economic conditions, which affect consumer spending both nationally and in the State of Florida, impact the amount of revenue received by the District. In addition, the erosion of property values has affected local funding and the impact of the continued decline in property values remains unknown at this time. Also, over the past several years, the District has experienced a significant decline in full-time equivalent enrollment and it is anticipated that the overall declining trend will continue. The Board must continue to be vigilant in monitoring its resources to meet the demands of our public education system.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit
ASSETS				
Cash and Cash Equivalents	\$ 16,539,138.75	\$ 38,977,218.35	\$ 55,516,357.10	\$ 299,112.00
Cash and Cash Equivalents with Fiscal Agent		100,000.00	100,000.00	
Accounts Receivable				14,284.00
Due from Other Agencies	2,463,592.22	627,063.12	3,090,655.34	
Due from Excess Insurer		440,854.68	440,854.68	
Prepaid Items				135,948.00
Inventories	758,891.53		758,891.53	
Investments	97,103.87	619,687.80	716,791.67	
Capital Assets:				
Nondepreciable Capital Assets	1,613,169.61	45,000.00	1,658,169.61	
Depreciable Capital Assets, Net	48,283,502.59	2,419,309.84	50,702,812.43	108,853.00
TOTAL ASSETS	\$ 69,755,398.57	\$ 43,229,133.79	\$ 112,984,532.36	\$ 558,197.00
LIABILITIES				
Salaries and Benefits Payable	\$ 994,142.20	\$ 62,390.63	\$ 1,056,532.83	\$
Accounts Payable	580,930.80	212,323.30	793,254.10	16,769.00
Construction Contracts Payable	52,199.10		52,199.10	
Construction Contracts Payable - Retainage	5,799.00		5,799.00	
Due to Other Agencies		350,182.64	350,182.64	
Deferred Revenue	488,520.00		488,520.00	
Long-Term Liabilities:				
Portion Due Within One Year	2,149,426.12	3,375,459.32	5,524,885.44	
Portion Due After One Year	16,831,549.37	6,505,661.21	23,337,210.58	
Total Liabilities	21,102,566.59	10,506,017.10	31,608,583.69	16,769.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	47,781,672.20	2,464,309.84	50,245,982.04	108,853.00
Restricted for:				
State Required Carryover Programs	217,868.54		217,868.54	
Debt Service	59,941.67		59,941.67	
Capital Projects	6,244,806.33		6,244,806.33	
Food Service	1,963,963.56		1,963,963.56	
Risk Management Programs		24,551,406.51	24,551,406.51	
Permanent Funds - Expendable	7,463.08		7,463.08	
Permanent Funds - Nonexpendable	124,513.25		124,513.25	
Other Purposes	214,423.77		214,423.77	
Unrestricted	(7,961,820.42)	5,707,400.34	(2,254,420.08)	432,575.00
Total Net Assets	48,652,831.98	32,723,116.69	81,375,948.67	541,428.00
TOTAL LIABILITIES AND NET ASSETS	\$ 69,755,398.57	\$ 43,229,133.79	\$ 112,984,532.36	\$ 558,197.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 52,752,540.33	\$ 212,233.20	\$	\$
Pupil Personnel Services	4,397,372.76			
Instructional Media Services	2,394,763.43			
Instruction and Curriculum Development Services	3,382,117.64			
Instructional Staff Training Services	2,151,046.22			
Instruction Related Technology	167,471.28			
School Board	566,467.70			
General Administration	2,418,901.10			
School Administration	5,643,448.31			
Facilities Acquisition and Construction	488,720.69			499,072.22
Fiscal Services	794,517.23			
Food Services	6,087,401.96	746,421.85	5,804,652.54	
Central Services	1,168,329.30			
Pupil Transportation Services	5,811,403.23			
Operation of Plant	6,744,264.40			
Maintenance of Plant	3,277,873.21			
Administrative Technology Services	455,034.91			
Community Services	235,305.24			
Unallocated Interest on Long-Term Debt	80,047.72			438,145.23
Unallocated Depreciation Expense*	5,001,763.43			
Total Governmental Activities	104,018,790.09	958,655.05	5,804,652.54	937,217.45
Business-Type Activities:				
NEFEC Risk Management (Property/Casualty) Program	15,046,714.72	13,813,985.88		
NEFEC Federal Economic Stimulus	874,770.49			
NEFEC Other Programs	11,431,619.56	5,618,598.07		
NEFEC Employee Benefits Program	85,643.87	59,170.80		
Total Business-Type Activities	27,438,748.64	19,491,754.75		
Total Primary Government	\$ 131,457,538.73	\$ 20,450,409.80	\$ 5,804,652.54	\$ 937,217.45
Component Unit				
Children's Reading Center Charter School	\$ 1,361,490.00	\$ 0.00	\$ 0.00	\$ 66,139.00

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			
Governmental Activities	Primary Government		Component Unit
	Business-Type Activities	Total	
\$ (52,540,307.13)	\$	\$ (52,540,307.13)	\$
(4,397,372.76)		(4,397,372.76)	
(2,394,763.43)		(2,394,763.43)	
(3,382,117.64)		(3,382,117.64)	
(2,151,046.22)		(2,151,046.22)	
(167,471.28)		(167,471.28)	
(566,467.70)		(566,467.70)	
(2,418,901.10)		(2,418,901.10)	
(5,643,448.31)		(5,643,448.31)	
10,351.53		10,351.53	
(794,517.23)		(794,517.23)	
463,672.43		463,672.43	
(1,168,329.30)		(1,168,329.30)	
(5,811,403.23)		(5,811,403.23)	
(6,744,264.40)		(6,744,264.40)	
(3,277,873.21)		(3,277,873.21)	
(455,034.91)		(455,034.91)	
(235,305.24)		(235,305.24)	
358,097.51		358,097.51	
(5,001,763.43)		(5,001,763.43)	
(96,318,265.05)		(96,318,265.05)	
	(1,232,728.84)	(1,232,728.84)	
	(874,770.49)	(874,770.49)	
	(5,813,021.49)	(5,813,021.49)	
	(26,473.07)	(26,473.07)	
	(7,946,993.89)	(7,946,993.89)	
(96,318,265.05)	(7,946,993.89)	(104,265,258.94)	
			(1,295,351.00)
21,741,934.68		21,741,934.68	
5,477,773.71		5,477,773.71	
61,373,222.66	5,573,239.00	66,946,461.66	1,238,816.00
34,581.92	94,977.49	129,559.41	592.00
1,763,994.83		1,763,994.83	11,693.00
90,391,507.80	5,668,216.49	96,059,724.29	1,251,101.00
(5,926,757.25)	(2,278,777.40)	(8,205,534.65)	(44,250.00)
54,579,589.23	35,001,894.09	89,581,483.32	585,678.00
\$ 48,652,831.98	\$ 32,723,116.69	\$ 81,375,948.67	\$ 541,428.00

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 8,154,456.18	\$	\$
Due from Other Funds	2,196,105.80		
Due from Other Agencies	256,085.93	116,558.20	1,161,176.65
Inventories	551,387.10		
Investments	2,283.93		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 11,160,318.94</u>	<u>\$ 116,558.20</u>	<u>\$ 1,161,176.65</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 648,501.12	\$ 7,442.83	\$ 319,204.91
Accounts Payable	239,715.94	2,463.48	224,070.23
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	934,150.42	106,651.89	617,901.51
Deferred Revenue			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,822,367.48</u>	<u>116,558.20</u>	<u>1,161,176.65</u>
Fund Balances:			
Nonspendable:			
Inventory	551,387.10		
Permanent Fund Principal			
Total Nonspendable Fund Balance	<u>551,387.10</u>	<u> </u>	<u> </u>
Restricted for:			
State Required Carryover Programs	217,868.54		
Other State and Local Projects	214,423.77		
Debt Service			
Capital Projects			
Food Service			
Permanent Funds			
Total Restricted Fund Balance	<u>432,292.31</u>	<u> </u>	<u> </u>
Assigned to:			
Curriculum Resource Teachers	895,540.94		
Employee Group Insurance	533,158.89		
Wellness Initiatives	174,746.52		
Repairs and Maintenance	147,508.10		
Equipment and Supplies	31,787.99		
Other Purposes	130,352.05		
Total Assigned Fund Balance	<u>1,913,094.49</u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>6,441,177.56</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>9,337,951.46</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,160,318.94</u>	<u>\$ 116,558.20</u>	<u>\$ 1,161,176.65</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,508,882.36	\$ 4,875,800.21	\$ 16,539,138.75
		2,196,105.80
	869,420.74	2,403,241.52
	207,504.43	758,891.53
8,601.68	78,617.12	89,502.73
<u>\$ 3,517,484.04</u>	<u>\$ 6,031,342.50</u>	<u>\$ 21,986,880.33</u>
\$ 2,310.93	\$ 17,217.11	\$ 992,365.97
	101,718.66	570,279.24
	52,199.10	52,199.10
	5,799.00	5,799.00
	480,373.85	2,139,077.67
	488,520.00	488,520.00
<u>2,310.93</u>	<u>1,145,827.72</u>	<u>4,248,240.98</u>
	207,504.43	758,891.53
	124,513.25	124,513.25
	<u>332,017.68</u>	<u>883,404.78</u>
		217,868.54
		214,423.77
	59,941.67	59,941.67
3,515,173.11	2,729,633.22	6,244,806.33
	1,756,459.13	1,756,459.13
	7,463.08	7,463.08
<u>3,515,173.11</u>	<u>4,553,497.10</u>	<u>8,500,962.52</u>
		895,540.94
		533,158.89
		174,746.52
		147,508.10
		31,787.99
		130,352.05
		<u>1,913,094.49</u>
		<u>6,441,177.56</u>
<u>3,515,173.11</u>	<u>4,885,514.78</u>	<u>17,738,639.35</u>
<u>\$ 3,517,484.04</u>	<u>\$ 6,031,342.50</u>	<u>\$ 21,986,880.33</u>

**PUTNAM 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	\$ 17,738,639.35
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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.	49,896,672.20
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(1,504.08)
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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	\$ 2,115,000.00		
Compensated Absences Payable	9,704,370.42		
Other Postemployment Benefits Payable	7,161,605.07		
			(18,980,975.49)

Total Net Assets - Governmental Activities	\$ 48,652,831.98
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 185,964.67	\$	\$ 1,146,091.73
Federal Through State and Local	599,764.29	828,980.97	11,214,888.33
State	46,564,916.15		
Local:			
Property Taxes	21,741,934.68		
Charges for Services - Food Service			
Miscellaneous	1,941,802.20		
Total Local Revenues	<u>23,683,736.88</u>		
Total Revenues	<u>71,034,381.99</u>	<u>828,980.97</u>	<u>12,360,980.06</u>
Expenditures			
Current - Education:			
Instruction	44,740,959.09	477,739.92	6,627,020.68
Pupil Personnel Services	3,129,845.99	346.00	1,178,968.19
Instructional Media Services	2,212,943.26		145,074.71
Instruction and Curriculum Development Services	1,450,688.38	47,521.76	1,794,640.40
Instructional Staff Training Services	422,699.38	137,229.70	1,549,386.34
Instruction Related Technology	23,707.88	142,737.46	
School Board	561,507.24		
General Administration	629,365.60	10,881.75	770,551.19
School Administration	5,489,396.63		
Facilities Acquisition and Construction	10,227.08		
Fiscal Services	728,237.91		
Food Services	72,902.13		
Central Services	1,135,326.04		
Pupil Transportation Services	4,961,404.89		210,019.20
Operation of Plant	6,659,088.14		3,423.13
Maintenance of Plant	3,233,039.95		
Administrative Technology Services	445,596.21		
Community Services	186,228.63		47,551.60
Fixed Capital Outlay:			
Facilities Acquisition and Construction	13,719.06		
Other Capital Outlay	119,653.01	12,524.38	34,344.62
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>76,226,536.50</u>	<u>828,980.97</u>	<u>12,360,980.06</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,192,154.51)</u>		
Other Financing Sources (Uses)			
Transfers In	4,163,466.93		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Refunded Bond Escrow Agent			
Insurance Loss Recoveries	19,736.58		
Transfers Out	<u>(1,396,450.02)</u>		
Total Other Financing Sources (Uses)	<u>2,786,753.49</u>		
Net Change in Fund Balances	<u>(2,405,401.02)</u>		
Fund Balances, Beginning	<u>11,743,352.48</u>		
Fund Balances, Ending	<u>\$ 9,337,951.46</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	6,412,526.12	1,332,056.40
	1,161,960.39	19,056,159.71
		47,726,876.54
5,477,773.71		27,219,708.39
	746,421.85	746,421.85
5,354.54	42,916.37	1,990,073.11
5,483,128.25	789,338.22	29,956,203.35
5,483,128.25	8,363,824.73	98,071,296.00
		51,845,719.69
		4,309,160.18
		2,358,017.97
		3,292,850.54
		2,109,315.42
		166,445.34
		561,507.24
	1,168.00	1,411,966.54
		5,489,396.63
478,173.61	320.00	488,720.69
		728,237.91
	5,960,542.43	6,033,444.56
		1,135,326.04
		5,171,424.09
		6,662,511.27
		3,233,039.95
		445,596.21
		233,780.23
117,591.48	1,355,109.45	1,486,419.99
88,817.25	46,270.00	301,609.26
133,878.75	325,000.00	458,878.75
	121,803.87	121,803.87
818,461.09	7,810,213.75	98,045,172.37
4,664,667.16	553,610.98	26,123.63
462,299.60	10,504.35	4,636,270.88
	625,000.00	625,000.00
	52,604.95	52,604.95
	(675,848.80)	(675,848.80)
		19,736.58
(3,616,954.00)	(557,017.28)	(5,570,421.30)
(3,154,654.40)	(544,756.78)	(912,657.69)
1,510,012.76	8,854.20	(886,534.06)
2,005,160.35	4,876,660.58	18,625,173.41
\$ 3,515,173.11	\$ 4,885,514.78	\$ 17,738,639.35

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

Net Change in Fund Balances - Governmental Funds \$ (886,534.06)

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.

Fixed Capital Outlay - Facilities Acquisition and Construction	\$ 1,486,419.99		
Fixed Capital Outlay - Other Capital Outlay	301,609.26		
Depreciation Expense	<u>(5,575,554.24)</u>		(3,787,524.99)

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.

Capital Lease Payments (Internal Balances)	\$ 133,878.75		
Refunding Bonds Issued	(625,000.00)		
Refunded Bonds Retired	665,000.00		
Bond Principal Repayments	<u>325,000.00</u>		498,878.75

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal 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. (582,239.83)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (1,164,622.52)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of the internal service fund is reported with governmental activities. (4,714.60)

Change in Net Assets - Governmental Activities \$ (5,926,757.25)

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

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2012**

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)	Total	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 31,835,248.78	\$	\$ 6,404,063.09	\$ 737,906.48	\$ 38,977,218.35	\$
Cash with Fiscal Agent	100,000.00				100,000.00	
Due from Other Funds						934,150.42
Due from Other Agencies	596.00		626,467.12		627,063.12	60,350.70
Due from Excess Insurer	440,854.68				440,854.68	
Total Current Assets	32,376,699.46		7,030,530.21	737,906.48	40,145,136.15	994,501.12
Noncurrent Assets:						
Investments in SBA Fund B Surplus Funds Trust Fund	443,582.47		167,228.91	8,876.42	619,687.80	7,601.14
Nondepreciable Capital Assets			45,000.00		45,000.00	
Depreciable Capital Assets, Net	6,935.00		2,412,374.84		2,419,309.84	
Total Noncurrent Assets	450,517.47		2,624,603.75	8,876.42	3,083,997.64	7,601.14
TOTAL ASSETS	\$ 32,827,216.93	\$ 0.00	\$ 9,655,133.96	\$ 746,782.90	\$ 43,229,133.79	\$ 1,002,102.26
LIABILITIES						
Current Liabilities:						
Salaries and Benefits Payable	\$ 2,309.30	\$	\$ 59,012.40	\$ 1,068.93	\$ 62,390.63	\$ 1,776.23
Accounts Payable	458.47		211,818.10	46.73	212,323.30	10,651.56
Due to Other Funds						991,178.55
Due to Other Agencies				350,182.64	350,182.64	
Compensated Absences Payable	11,864.65		170,496.82	6,097.85	188,459.32	
Estimated Insurance Claims Payable	3,187,000.00				3,187,000.00	
Total Current Liabilities	3,201,632.42		441,327.32	357,396.15	4,000,355.89	1,003,606.34
Noncurrent Liabilities:						
Compensated Absences Payable	47,458.60		681,987.28	24,391.40	753,837.28	
Estimated Insurance Claims Payable	5,357,000.00				5,357,000.00	
Other Postemployment Benefits Payable	20,332.83		367,044.18	7,446.92	394,823.93	
Total Noncurrent Liabilities	5,424,791.43		1,049,031.46	31,838.32	6,505,661.21	
Total Liabilities	8,626,423.85		1,490,358.78	389,234.47	10,506,017.10	1,003,606.34
NET ASSETS						
Invested in Capital Assets	6,935.00		2,457,374.84		2,464,309.84	
Unrestricted	24,193,858.08		5,707,400.34	357,548.43	30,258,806.85	(1,504.08)
Total Net Assets	24,200,793.08		8,164,775.18	357,548.43	32,723,116.69	(1,504.08)
TOTAL LIABILITIES AND NET ASSETS	\$ 32,827,216.93	\$ 0.00	\$ 9,655,133.96	\$ 746,782.90	\$ 43,229,133.79	\$ 1,002,102.26

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

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

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)	Total	
OPERATING REVENUES						
Charges for Services	\$ 299,422.90	\$	\$ 4,894,144.23	\$ 48,322.80	\$ 5,241,889.93	\$
Charges for Sales			243,088.65		243,088.65	
Premium Revenues	13,514,562.98			10,848.00	13,525,410.98	8,465,961.72
Other Operating Revenues			481,365.19		481,365.19	20.00
Total Operating Revenues	13,813,985.88		5,618,598.07	59,170.80	19,491,754.75	8,465,981.72
OPERATING EXPENSES						
Salaries	168,987.93	145,608.11	4,131,529.50	61,891.99	4,508,017.53	106,294.25
Employee Benefits	40,331.71	22,397.49	927,133.51	13,253.49	1,003,116.20	12,203.12
Purchased Services	397,433.08	690,595.67	4,636,755.14	8,603.46	5,733,387.35	9,233,307.16
Energy Services			45,052.80		45,052.80	
Materials and Supplies	2,092.86	4,444.73	172,745.79	595.01	179,878.39	
Capital Outlay	3,543.98		139,949.75		143,493.73	114.97
Insurance Claims	5,032,864.00				5,032,864.00	
Excess Insurance Premiums	6,428,421.78				6,428,421.78	
Policyholder Dividends	2,860,886.28				2,860,886.28	
Other Expenses	110,857.31	11,724.49	662,764.30		785,346.10	53,927.50
Depreciation	1,295.79		715,688.77	1,299.92	718,284.48	
Total Operating Expenses	15,046,714.72	874,770.49	11,431,619.56	85,643.87	27,438,748.64	9,405,847.00
Operating Loss	(1,232,728.84)	(874,770.49)	(5,813,021.49)	(26,473.07)	(7,946,993.89)	(939,865.28)
NONOPERATING REVENUES						
Interest Income	63,767.51		30,472.69	737.29	94,977.49	1,000.26
Federal Grants		874,770.49	3,280,444.51		4,155,215.00	
State Grants			1,418,024.00		1,418,024.00	
Total Nonoperating Revenues	63,767.51	874,770.49	4,728,941.20	737.29	5,668,216.49	1,000.26
Loss Before Transfers	(1,168,961.33)		(1,084,080.29)	(25,735.78)	(2,278,777.40)	(938,865.02)
Transfers In						934,150.42
Change in Net Assets	(1,168,961.33)		(1,084,080.29)	(25,735.78)	(2,278,777.40)	(4,714.60)
Net Assets - Beginning	25,369,754.41		9,248,855.47	383,284.21	35,001,894.09	3,210.52
Net Assets - Ending	\$ 24,200,793.08	\$ 0.00	\$ 8,164,775.18	\$ 357,548.43	\$ 32,723,116.69	\$ (1,504.08)

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

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

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	NEFEC Risk Management (Property/Casualty) Program	NEFEC Federal Economic Stimulus	NEFEC Other Programs	NEFEC Employee Benefits Program (Nonmajor)	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash Received from Board Funds and Participants	\$ 13,813,985.88	\$	\$	\$ 59,170.80	\$ 13,873,156.68	\$ 8,465,961.72
Cash Payments to Suppliers for Goods and Services	(6,959,951.35)	(706,764.89)	(6,274,114.44)	(23,151.74)	(13,963,982.42)	(9,281,566.37)
Cash Payments to Employees for Services	(220,029.48)	(168,005.60)	(4,972,635.72)	(63,562.24)	(5,424,233.04)	(119,900.92)
Cash Payments for Insurance Claims	(5,004,864.00)				(5,004,864.00)	
Cash Payments for Policyholder Dividends	(2,860,886.28)				(2,860,886.28)	
Cash Received from Other Operating Activities	558,302.31		5,390,139.20		5,948,441.51	
Cash Payments for Other Operating Activities				(167,007.46)	(167,007.46)	(1,712,702.46)
Net Cash Used by Operating Activities	(673,442.92)	(874,770.49)	(5,856,610.96)	(194,550.64)	(7,599,375.01)	(2,648,208.03)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Cash Received from Federal and State Grants		874,770.49	4,734,497.53		5,609,268.02	
Transfer from Other Funds						335,000.00
Net Cash Provided by Noncapital Financing Activities		874,770.49	4,734,497.53		5,609,268.02	335,000.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition of Capital Assets			(177,668.92)		(177,668.92)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale of Investments	107,722.45		40,610.41	1,772.67	150,105.53	1,044.19
Interest Income	17,113.58		12,884.45	178.20	30,176.23	1,000.26
Net Cash Provided by Investing Activities	124,836.03		53,494.86	1,950.87	180,281.76	2,044.45
Net Decrease in Cash and Cash Equivalents	(548,606.89)		(1,246,287.49)	(192,599.77)	(1,987,494.15)	(2,311,163.58)
Cash and Cash Equivalents, Beginning	32,483,855.67		7,650,350.58	930,506.25	41,064,712.50	2,311,163.58
Cash and Cash Equivalents, Ending	\$ 31,935,248.78	\$ 0.00	\$ 6,404,063.09	\$ 737,906.48	\$ 39,077,218.35	\$ 0.00
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:						
Operating Loss	\$ (1,232,728.84)	\$ (874,770.49)	\$ (5,813,021.49)	\$ (26,473.07)	\$ (7,946,993.89)	\$ (939,865.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:						
Depreciation	1,295.79		715,688.77	1,299.92	718,284.48	
Changes in Assets and Liabilities:						
Decrease in Due from Other Funds	587,710.20				587,710.20	
Decrease in Due from Other Agencies	4,421.67				4,421.67	594.03
Decrease in Leases Receivable			550,243.00		550,243.00	
Increase in Due from Excess Insurer	(33,829.56)				(33,829.56)	
Decrease in Salaries and Benefits Payable	(304.95)		(5,425.90)	(117.44)	(5,848.29)	(1,403.55)
Increase (Decrease) in Accounts Payable	(17,602.34)		(616,846.66)	(13,953.27)	(648,402.27)	5,783.26
Decrease in Due to Other Funds			(757,710.20)		(757,710.20)	(1,713,316.49)
Decrease in Due to Other Agencies				(167,007.46)	(167,007.46)	
Decrease in Deferred Revenue			(20,991.67)		(20,991.67)	
Increase in Estimated Insurance Claims Payable	28,000.00				28,000.00	
Increase (Decrease) in Compensated Absences Payable	(13,430.74)		(2,995.48)	9,397.72	(7,028.50)	
Increase in Other Postemployment Benefits Payable	3,025.85		94,448.67	2,302.96	99,777.48	
Total Adjustments	559,285.92		(43,589.47)	(168,077.57)	347,618.88	(1,708,342.75)
Net Cash Used by Operating Activities	(673,442.92)	(874,770.49)	(5,856,610.96)	(194,550.64)	(7,599,375.01)	(2,648,208.03)
Cash and Cash Equivalents						
Cash and Cash Equivalents	\$ 31,835,248.78	\$	\$ 6,404,063.09	\$ 737,906.48	\$ 38,977,218.35	\$
Cash with Fiscal Agent	100,000.00				100,000.00	
Cash and Cash Equivalents, End of Year	\$ 31,935,248.78	\$ 0.00	\$ 6,404,063.09	\$ 737,906.48	\$ 39,077,218.35	\$ 0.00
Noncash Investing, Capital, and Financing Activities						
Change in Fair Value of Investments	\$ 46,653.93	\$ 0.00	\$ 17,588.24	\$ 559.09	\$ 64,801.26	\$ 1,044.19

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 649,872.00
Investments	<u>3,094.00</u>
TOTAL ASSETS	<u>\$ 652,966.00</u>
LIABILITIES	
Accounts Payable	\$ 3,392.00
Internal Accounts Payable	<u>649,574.00</u>
TOTAL LIABILITIES	<u>\$ 652,966.00</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Children's Reading Center Charter School (Charter School) is presented as a discretely presented component unit in the component unit columns in the government-wide financial statements. The general operating authority of the Charter School is contained in Section 1002.33, Florida Statutes. The Charter School is owned by The Children's Reading Center, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The Charter School operates under a charter established pursuant to a contract between The Children's Reading Center, Inc., and the Putnam County District School Board, its sponsor. The current charter is effective until June 30, 2015; at the end of that term, the District may choose not to renew under grounds specified in the charter. During the term of the charter, the District may terminate the charter if good cause is shown. The Charter School is considered a component unit of the District because it is fiscally dependent on the District to levy taxes for its support. The financial data reported in the accompanying financial statements was derived from the audit report of the Charter School for the fiscal year ended June 30, 2012, which is available at the District's administrative offices.

Basis of Presentation:

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major enterprise funds:

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

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

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

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, 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.

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

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

The Charter School, shown as a discretely presented component unit, is accounted for as a not-for-profit organization and uses the not-for-profit accounting model.

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

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

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

Amounts reported as investments consist of amounts placed in 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.

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

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

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

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

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

Capital assets are depreciated using the unweighted average composite method for governmental activities and the straight-line method for business-type activities over the following estimated useful lives:

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

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

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

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

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

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

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

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

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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.

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	\$ 9,778.12
Fund B	5.73 Year Average	657,448.84
Debt Service Accounts	6 Months	61,891.83
Dreyfus Cash Management Institutional Shares Money Market Fund (1)	52 Day Average	39,908,218.74
Common Stock		545.00
Total Investments		<u>\$ 40,637,882.53</u>

Note: (1) These investments are reported as cash equivalents for financial statement reporting purposes.

➤ Interest Rate Risk

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

Florida PRIME and the Dreyfus Cash Management Institutional Shares Money Market Fund had weighted average days to maturity (WAM) of 38 days and 52 days, respectively, 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

**PUTNAM COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 Board has adopted an investment policy that authorizes investing in qualified depositories, certificates of deposit, time deposits, securities of the United States Government, and investment pools managed and directed by an approved agency of the State, and certain forms of investments authorized in accordance with Section 218.415, Florida Statutes.

The District's investments in 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.

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

The District's investment in the Dreyfus Cash Management Institutional Shares Money Market Fund is rated AAAM by Standard & Poor's and Aaa-mf by Moody's Investors Service.

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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	\$ 1,546,386.35	\$	\$	\$ 1,546,386.35
Construction in Progress	510,021.95	1,486,419.99	1,929,658.68	66,783.26
Total Capital Assets Not Being Depreciated	2,056,408.30	1,486,419.99	1,929,658.68	1,613,169.61
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,998,266.03	125,232.64		7,123,498.67
Buildings and Fixed Equipment	119,920,108.14	1,804,426.04		121,724,534.18
Furniture, Fixtures, and Equipment	13,629,407.10	245,301.65	277,739.82	13,596,968.93
Motor Vehicles	9,209,767.50	48,807.61	232,617.78	9,025,957.33
Property Under Capital Lease (1)	960,809.87		960,809.87	
Computer Software	356,985.64	968,309.87		1,325,295.51
Total Capital Assets Being Depreciated	151,075,344.28	3,192,077.81	1,471,167.47	152,796,254.62
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,667,656.51	252,948.18		4,920,604.69
Buildings and Fixed Equipment	76,375,962.43	3,645,520.63		80,021,483.06
Furniture, Fixtures, and Equipment	10,478,682.76	896,238.47	277,739.82	11,097,181.41
Motor Vehicles	7,225,477.35	573,790.81	232,617.78	7,566,650.38
Property Under Capital Lease (1)	384,323.87	192,161.97	576,485.84	
Computer Software	315,452.47	591,380.02		906,832.49
Total Accumulated Depreciation	99,447,555.39	6,152,040.08	1,086,843.44	104,512,752.03
Total Capital Assets Being Depreciated, Net	51,627,788.89	(2,959,962.27)	384,324.03	48,283,502.59
Governmental Activities Capital Assets, Net	\$ 53,684,197.19	\$ (1,473,542.28)	\$ 2,313,982.71	\$ 49,896,672.20

Notes: (1) During the 2011-12 fiscal year, property under capital lease was paid off and the asset and related accumulated depreciation were reclassified as computer software. As a result, capital asset additions exceed fixed capital outlay expenditures on the statement of revenues, expenditures, and changes in fund balances by \$960,809.87, and additions to accumulated depreciation exceed depreciation expense on the statement of activities by \$576,485.84.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 45,000.00	\$	\$	\$ 45,000.00
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,343.00			5,343.00
Buildings and Fixed Equipment	2,289,686.62			2,289,686.62
Furniture, Fixtures, and Equipment	1,288,608.73	55,201.14		1,343,809.87
Motor Vehicles	69,160.00			69,160.00
Computer Software	3,207,520.85	122,467.78		3,329,988.63
Total Capital Assets Being Depreciated	6,860,319.20	177,668.92		7,037,988.12
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,205.80	1,068.60		4,274.40
Buildings and Fixed Equipment	1,260,493.13	84,747.88		1,345,241.01
Furniture, Fixtures, and Equipment	1,035,380.98	96,649.37		1,132,030.35
Motor Vehicles	69,160.00			69,160.00
Computer Software	1,532,153.89	535,818.63		2,067,972.52
Total Accumulated Depreciation	3,900,393.80	718,284.48		4,618,678.28
Total Capital Assets Being Depreciated, Net	2,959,925.40	(540,615.56)		2,419,309.84
Business-Type Activities Capital Assets, Net	\$ 3,004,925.40	\$ (540,615.56)	\$ 0.00	\$ 2,464,309.84

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 573,790.81
Unallocated	5,001,763.43
Total Depreciation Expense - Governmental Activities	<u>\$ 5,575,554.24</u>
BUSINESS-TYPE ACTIVITIES	
NEFEC:	
Risk Management Programs	\$ 1,295.79
Other Programs	715,688.77
Employee Benefits Program	1,299.92
Total Depreciation Expense - Business-Type Activities	<u>\$ 718,284.48</u>

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

5. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2004A	\$ 340,000	4.000 - 4.625	2024
Series 2005A	55,000	4.0 - 5.0	2025
Series 2005A, Refunding	185,000	5.0	2017
Series 2005B, Refunding	195,000	5.0	2018
Series 2008A	595,000	3.5 - 5.0	2028
Series 2009A, Refunding	120,000	4.0 - 5.0	2019
Series 2011A, Refunding	625,000	4.0 - 5.0	2015
Total Bonds Payable	\$2,115,000		

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

On January 5, 2012, the Florida Department of Education issued Capital Outlay Refunding Bonds, Series 2011A, to advance-refund callable portions of the District's State School Bonds, Series 2002B. The District's portion of the refunding bonds issued, totaling \$625,000, were issued to advance-refund the \$665,000 principal amount of the District's State School Bonds, Series 2002B, that mature on or after January 1, 2015. The District's pro rata share of the net proceeds was placed in an irrevocable trust to provide for future debt service payments. As a result, \$665,000 of the State School Bonds, Series 2002B, are considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 424,191.02	\$ 325,000.00	\$ 99,191.02
2014	435,965.00	350,000.00	85,965.00
2015	393,890.00	325,000.00	68,890.00
2016	202,840.00	150,000.00	52,840.00
2017	165,540.00	120,000.00	45,540.00
2018-2022	580,175.00	425,000.00	155,175.00
2023-2027	416,756.25	355,000.00	61,756.25
2028	67,925.00	65,000.00	2,925.00
Total State School Bonds	<u>\$ 2,687,282.27</u>	<u>\$ 2,115,000.00</u>	<u>\$ 572,282.27</u>

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 2,480,000.00	\$ 625,000.00	\$ 990,000.00	\$ 2,115,000.00	\$ 325,000.00
Compensated Absences Payable	9,122,130.59	4,323,335.20	3,741,095.37	9,704,370.42	1,824,426.12
Other Postemployment Benefits Payable	5,996,982.55	2,049,603.57	884,981.05	7,161,605.07	
Total Governmental Activities	<u>\$ 17,599,113.14</u>	<u>\$ 6,997,938.77</u>	<u>\$ 5,616,076.42</u>	<u>\$ 18,980,975.49</u>	<u>\$ 2,149,426.12</u>
BUSINESS-TYPE ACTIVITIES					
Estimated Insurance Claims Payable	\$ 8,516,000.00	\$ 5,032,864.00	\$ 5,004,864.00	\$ 8,544,000.00	\$ 3,187,000.00
Compensated Absences Payable	949,325.10	364,651.83	371,680.33	942,296.60	188,459.32
Other Postemployment Benefits Payable	295,046.45	112,996.43	13,218.95	394,823.93	
Total Business-Type Activities	<u>\$ 9,760,371.55</u>	<u>\$ 5,510,512.26</u>	<u>\$ 5,389,763.28</u>	<u>\$ 9,881,120.53</u>	<u>\$ 3,375,459.32</u>

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

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

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 2,196,105.80	\$ 934,150.42
Special Revenue:		
Other		617,901.51
Federal Economic Stimulus		106,651.89
Nonmajor Governmental		480,373.85
Internal Service	934,150.42	991,178.55
Total	<u>\$ 3,130,256.22</u>	<u>\$ 3,130,256.22</u>

The outstanding interfund balances resulted mainly from expenditure and reimbursement timing differences between funds. The amount due from nonmajor governmental funds to the General Fund was the final disposition of funds remaining in a debt service fund for a District bond issue which was paid-in-full during a prior fiscal year. The amount due to the Internal Service Fund from the General Fund was to offset shortages in employee health insurance premiums. The remaining interfund amounts represent temporary loans and are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 4,163,466.93	\$ 1,396,450.02
Capital Projects:		
Local Capital Improvement	462,299.60	3,616,954.00
Nonmajor Governmental	10,504.35	557,017.28
Internal Service	934,150.42	
Total	<u>\$ 5,570,421.30</u>	<u>\$ 5,570,421.30</u>

Transfers from the Capital Projects – Local Capital Improvement Fund to the General Fund were for facilities maintenance work and property casualty insurance premiums. Transfers from the nonmajor governmental funds were primarily for the final disposition of debt service funds remaining from a bond issue that was fully repaid in a prior fiscal year. Transfers from the General Fund to the Internal Service Fund were to offset shortages in employee health insurance premiums. Transfers from the General Fund to the Capital Projects – Local Capital Improvement Fund were to restore prior audit questioned costs.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

8. FUND BALANCE REPORTING

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

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

➤ **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.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes and not included in other categories. On August 17, 2010, the Board issued a resolution authorizing the Chief Financial Officer to assign fund balance.

➤ **Unassigned**

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

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

9. 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>
Governmental Funds:	
Florida Education Finance Program	\$ 32,943,542.00
Categorical Educational Program - Class Size Reduction	11,583,957.00
Voluntary Prekindergarten	951,393.57
Motor Vehicle License Tax (Capital Outlay and Debt Service)	497,918.11
Workforce Development Program	460,993.00
Gross Receipts Tax (Public Education Capital Outlay)	411,571.00
School Recognition	346,162.00
Food Service Supplement	121,052.00
Miscellaneous	410,287.86
Subtotal - Governmental	47,726,876.54
Enterprise Funds:	
Regional Consortium Service Grant	619,453.00
Web-Based Instructional Programs Grant	400,000.00
Florida Reading Initiative	375,000.00
Other State Grants and Contracts	23,571.00
Subtotal - Enterprise	1,418,024.00
Total	<u>\$ 49,144,900.54</u>

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

10. 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	5.209	\$ 19,600,310
Basic Discretionary Local Effort	0.748	2,814,558
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	5,644,167
Total	<u>7.457</u>	<u>\$ 28,059,035</u>

**PUTNAM COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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11. 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 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 except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. 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 except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of 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.

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

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
Florida Retirement System, Special Risk	3.00	14.10
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 years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$6,348,091.47, \$6,241,091.07, and \$4,135,874.60, respectively, which were equal to the required contributions for each fiscal year.

There were 161 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$488,458.38, 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.

12. 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, 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

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

subsidized) premium rate than active employees pursuant to Board Policy 6.215. Eligible employees are entitled to receive benefits provided under this defined benefit plan from the time of retirement until eligible to enroll in the Federal Medicare program for their primary coverage. Retirees are required to enroll in the 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. Contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual 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, 195 retirees received other postemployment benefits. The District provided required contributions of \$898,200 toward the annual OPEB cost, net of retiree contributions totaling \$822,700, which represents 1.3 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)	\$ 1,214,433
Amortization of Unfunded Actuarial	
Accrued Liability	832,682
Interest on Normal Cost and Amortization	<u>81,885</u>
Annual Required Contribution	2,129,000
Interest on Net OPEB Obligation	251,700
Adjustment to Annual Required Contribution	<u>(218,100)</u>
Annual OPEB Cost (Expense)	2,162,600
Contribution Toward the OPEB Cost	<u>(898,200)</u>
Increase in Net OPEB Obligation	1,264,400
Net OPEB Obligation, Beginning of Year	<u>6,292,029</u>
Net OPEB Obligation, End of Year	<u><u>\$ 7,556,429</u></u>

**PUTNAM 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	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$2,435,800	\$ 762,800	31.3%	\$4,649,200
2010-11	2,547,229	904,400	35.5%	6,292,029
2011-12	2,162,600	898,200	41.5%	7,556,429

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$24,980,500, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$24,980,500 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$61,564,800, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.6 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, 2011, used projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2012, and to 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 under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6.9 percent for the 2011-12 fiscal year, reduced to an ultimate rate of 4.9 percent after 70 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period.

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

13. SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2012:

Major Funds				
<u>General</u>	<u>Special Revenue - Other</u>	<u>Capital Projects - Local Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>\$ 179,296.09</u>	<u>\$ 45,952.61</u>	<u>\$ 46,384.02</u>	<u>\$ 771,625.09</u>	<u>\$ 1,043,257.81</u>

14. CONSORTIUMS

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

15. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Putnam County District School Board is a member of NEFEC (see note 14) and participates in NEFEC's Risk Management Programs relating to property and casualty insurance, under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such risk management programs. NEFEC's Risk Management Program for property and casualty insurance is a risk-sharing public entity pool that is self-sustaining through member assessments (premiums). Coverage is purchased through commercial companies for claims in excess of specified amounts. Activities applicable to the NEFEC Risk Management Property/Casualty Program are included in the business-type activities on the financial statements.

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

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

accordingly, the insurance risks are not transferred to the Program. Each participating district is responsible for any deficit in its account and for payment for any pending claims should the district withdraw from the Program.

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

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

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

16. PUBLIC ENTITY RISK POOL

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

Summary of Significant Accounting Policies

- **Unpaid Claims Liabilities** - NEFEC RMP establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported, but not settled, and of claims that have been incurred, but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards. Accordingly, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability and workers' compensation. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect settlements, claim frequency, and other economic and social factors.
- **Excess Insurance** - NEFEC RMP has entered into agreements with various insurance companies to provide specific excess coverage for claim amounts above a stated amount on an individual claim basis and aggregate excess coverage when total claims minus specific excess coverage exceed the loss fund. The amount of \$440,854.68 in excess insurance recoverable on unpaid claims was deducted from the liability for unpaid claims at June 30, 2012.
- **Investment Income** - Investment income is not treated as an offset to reserves.

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

Unpaid Claims Liabilities

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

	<u>Reconciliation of Claims Liability</u>	
	<u>2010-11</u>	<u>2011-12</u>
Estimated Insurance Claims Payable, Beginning of Fiscal Year	<u>\$ 9,987,000</u>	<u>\$ 8,516,000</u>
Incurring Claims and Claims Adjustment Expenses:		
Provision for Insured Events of Current Fiscal Year	5,101,000	5,701,000
Increase (Decrease) in Provision for Insured Events of Prior Fiscal Years	(2,518,000)	623,000
Increase (Decrease) in Estimated Incurred Claims Assigned	<u>768,251</u>	<u>(1,291,136)</u>
Total Incurred Claims and Claims Adjustment Expenses	<u>3,351,251</u>	<u>5,032,864</u>
Payments:		
Claims and Claims Adjustment Expenses Attributable to:		
Insured Events of the Current Fiscal Year	1,952,000	2,002,000
Insured Events of Prior Fiscal Years	2,997,000	3,509,000
Adjustments for Payments from Excess Insurers and Subrogation	<u>(126,749)</u>	<u>(506,136)</u>
Total Payments	<u>4,822,251</u>	<u>5,004,864</u>
Estimated Insurance Claims Payable, End of Fiscal Year	<u>\$ 8,516,000</u>	<u>\$ 8,544,000</u>

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 170,000.00	\$ 170,000.00	\$ 185,964.67	\$ 15,964.67
Federal Through State and Local	475,000.00	475,000.00	599,764.29	124,764.29
State	45,813,206.34	46,615,617.34	46,564,916.15	(50,701.19)
Local:				
Property Taxes	21,518,274.00	21,518,274.00	21,741,934.68	223,660.68
Miscellaneous	1,070,894.00	1,350,273.89	1,941,802.20	591,528.31
Total Local Revenues	22,589,168.00	22,868,547.89	23,683,736.88	815,188.99
Total Revenues	69,047,374.34	70,129,165.23	71,034,381.99	905,216.76
Expenditures				
Current - Education:				
Instruction	44,172,202.14	45,321,555.73	44,740,959.09	580,596.64
Pupil Personnel Services	3,197,190.31	3,349,897.33	3,129,845.99	220,051.34
Instructional Media Services	2,432,295.39	2,465,670.71	2,212,943.26	252,727.45
Instruction and Curriculum Development Services	1,950,765.22	1,461,357.51	1,450,688.38	10,669.13
Instructional Staff Training Services	87,398.41	461,242.03	422,699.38	38,542.65
Instruction Related Technology	36,000.00	23,707.88	23,707.88	
School Board	1,570,345.73	561,507.24	561,507.24	
General Administration	714,581.37	679,879.77	629,365.60	50,514.17
School Administration	5,404,776.57	5,576,378.45	5,489,396.63	86,981.82
Facilities Acquisition and Construction	9,977.01	10,704.65	10,227.08	477.57
Fiscal Services	768,841.00	728,526.37	728,237.91	288.46
Food Services		72,902.13	72,902.13	
Central Services	1,439,023.32	1,135,869.32	1,135,326.04	543.28
Pupil Transportation Services	4,677,140.74	4,977,473.94	4,961,404.89	16,069.05
Operation of Plant	8,616,658.22	7,264,240.90	6,659,088.14	605,152.76
Maintenance of Plant	3,733,941.10	3,865,668.48	3,233,039.95	632,628.53
Administrative Technology Services	871,862.00	445,955.73	445,596.21	359.52
Community Services	184,406.00	186,228.63	186,228.63	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		13,719.06	13,719.06	
Other Capital Outlay		119,653.01	119,653.01	
Total Expenditures	79,867,404.53	78,722,138.87	76,226,536.50	2,495,602.37
Excess (Deficiency) of Revenues Over Expenditures	(10,820,030.19)	(8,592,973.64)	(5,192,154.51)	3,400,819.13
Other Financing Sources (Uses)				
Transfers In	4,016,954.00	4,083,093.08	4,163,466.93	80,373.85
Insurance Loss Recoveries	15,000.00	33,677.46	19,736.58	(13,940.88)
Transfers Out		(1,714,537.53)	(1,396,450.02)	318,087.51
Total Other Financing Sources (Uses)	4,031,954.00	2,402,233.01	2,786,753.49	384,520.48
Net Change in Fund Balances	(6,788,076.19)	(6,190,740.63)	(2,405,401.02)	3,785,339.61
Fund Balances, Beginning	11,743,352.48	11,743,352.48	11,743,352.48	
Fund Balances, Ending	\$ 4,955,276.29	\$ 5,552,611.85	\$ 9,337,951.46	\$ 3,785,339.61

Special Revenue - Federal Economic Stimulus Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 523,918.10	\$ 1,274,581.55	\$ 828,980.97	\$ (445,600.58)	\$ 1,974,076.96 6,479,383.21	\$ 2,366,748.00 14,549,631.60	\$ 1,146,091.73 11,214,888.33	\$ (1,220,656.27) (3,334,743.27)
523,918.10	1,274,581.55	828,980.97	(445,600.58)	8,453,460.17	16,916,379.60	12,360,980.06	(4,555,399.54)
265,773.64 73,554.68	716,145.28 346.00	477,739.92 346.00	238,405.36	5,438,925.08 221,084.91 70,323.33	9,174,574.38 1,539,866.26 156,942.94	6,627,020.68 1,178,968.19 145,074.71	2,547,553.70 360,898.07 11,868.23
1,206.42 126,956.75 41,542.31	48,506.21 238,221.64 247,956.29	47,521.76 137,229.70 142,737.46	984.45 100,991.94 105,218.83	650,321.55 1,483,720.44	2,020,777.27 2,753,905.06 1,723.24	1,794,640.40 1,549,386.34	226,136.87 1,204,518.72 1,723.24
14,884.30	10,881.75	10,881.75		560,217.10	828,121.15	770,551.19	57,569.96
				26,425.53 643.83	353,060.26 3,512.82	210,019.20 3,423.13	143,041.06 89.69
				1,798.40	47,551.60	47,551.60	
	12,524.38	12,524.38			2,000.00 34,344.62		2,000.00
523,918.10	1,274,581.55	828,980.97	445,600.58	8,453,460.17	16,916,379.60	12,360,980.06	4,555,399.54
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

PUTNAM 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) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2008	\$ 0	\$ 27,759,000	\$ 27,759,000	0.0%	\$ 74,696,501	37.2%
July 1, 2009	0	25,093,825	25,093,825	0.0%	64,962,500	38.6%
July 1, 2011	0	24,980,500	24,980,500	0.0%	61,564,800	40.6%

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

PUTNAM COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - TEN-YEAR CLAIMS DEVELOPMENT INFORMATION -
NORTH EAST FLORIDA EDUCATIONAL CONSORTIUM RISK MANAGEMENT PROPERTY/CASUALTY PROGRAMS
For the Fiscal Year Ended June 30, 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net Earned Required Contribution and Investment Revenues:										
Earned	\$12,760,628	\$14,097,997	\$14,550,526	\$13,634,123	\$16,964,979	\$17,082,175	\$15,303,151	\$15,304,938	\$14,363,068	\$13,578,330
Excess Insured	4,465,441	4,795,865	4,973,645	4,439,275	7,619,617	7,996,481	6,850,872	6,805,867	6,676,729	6,428,422
Total Net Earned Required Contribution and Investment Revenues	8,295,187	9,302,132	9,576,881	9,194,848	9,345,362	9,085,694	8,452,279	8,499,071	7,686,339	7,149,908
Unallocated Expenses	555,023	522,222	543,573	1,411,089	1,474,414	1,642,152	1,602,246	1,069,895	2,131,357	3,585,429
Estimated Incurred Claims and Expenses,										
End of Policy Year:										
Incurred	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000	5,101,000	5,701,000
Net Paid (Cumulative) as of:										
End of Policy Year	1,493,000	1,596,000	1,679,000	1,844,000	1,899,000	2,178,000	1,554,000	1,650,000	1,952,000	2,002,000
One Year Later	3,433,000	3,081,000	2,966,000	2,933,000	2,778,000	3,554,000	3,309,000	3,305,000	3,632,000	
Two Years Later	4,712,000	3,539,000	3,366,000	3,397,000	3,484,000	4,360,000	3,879,000	3,913,000		
Three Years Later	5,320,000	3,891,000	3,546,000	3,857,000	3,827,000	4,695,000	4,473,000			
Four Years Later	5,507,000	4,105,000	3,586,000	4,090,000	3,989,000	4,982,000				
Five Years Later	5,600,000	4,417,000	3,595,000	4,200,000	4,077,000					
Six Years Later	5,732,000	4,422,000	3,623,000	4,217,000						
Seven Years Later	5,755,000	4,429,000								
Eight Years Later	5,773,000	4,435,000								
Nine Years Later	5,774,000									
Reestimated Excess Insured Claims and Expenses	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Reestimated Net Incurred Claims and Expenses:										
End of Policy Year	6,590,000	6,976,000	6,587,000	7,065,000	6,208,000	6,551,000	5,026,000	5,163,000	5,101,000	5,701,000
One Year Later	6,399,000	5,545,000	5,153,000	5,332,000	5,061,000	5,529,000	5,490,000	4,947,000	5,234,000	
Two Years Later	6,513,000	4,778,000	4,685,000	4,869,000	4,557,000	5,771,000	5,032,000	4,964,000		
Three Years Later	6,245,000	4,961,000	4,353,000	4,595,000	4,549,000	5,327,000	5,146,000			
Four Years Later	6,399,000	4,946,000	4,087,000	4,570,000	4,360,000	5,417,000				
Five Years Later	6,411,000	4,849,000	3,891,000	4,489,000	4,314,000					
Six Years Later	6,092,000	4,798,000	3,897,000	4,387,000						
Seven Years Later	5,950,000	4,764,000	3,774,000							
Eight Years Later	5,947,000	4,674,000								
Nine Years Later	5,834,000									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	(756,000)	(2,302,000)	(2,813,000)	(2,678,000)	(1,894,000)	(1,134,000)	120,000	(199,000)	133,000	0

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

**PUTNAM 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

**PUTNAM 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)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 351,093.12	\$
National School Lunch Program	10.555	300, 350	1,290,780.12	
Summer Food Service Program for Children	10.559	323	74,023.53	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	982,150.62	
National School Lunch Program	10.555 (2)	None	2,654,481.11	
Summer Food Service Program for Children	10.559	323	30,850.29	
Total Child Nutrition Cluster			5,383,378.79	
Florida Department of Education:				
Fresh Fruit and Vegetable Program	10.582	300	72,031.98	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	300	126,628.24	
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	35,927.87	
Total United States Department of Agriculture			5,617,966.88	
United States Department of Justice:				
Direct:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	108,112.16	
United States Department of Labor:				
Indirect:				
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	66,099.55	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	31,367.17	
Fund for the Improvement of Education	84.215	N/A	251,046.58	
Early Reading First	84.359	N/A	241,844.47	25,648.47
Teacher Incentive Fund	84.374	N/A	895,431.29	
Total Direct			1,419,689.51	25,648.47
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	5,094,903.27	387,920.00
Special Education - Preschool Grants	84.173	266, 267	221,004.58	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	160,920.28	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	3,057.88	
Total Special Education Cluster			5,479,886.01	387,920.00
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	80,211.50	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	10,099.34	
Total Education for Homeless Children and Youth Cluster			90,310.84	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	228,677.88	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	5,074,753.65	
Migrant Education - State Grant Program	84.011	217	377,678.35	
Career and Technical Education - Basic Grants to States	84.048	161	230,305.42	
Twenty-First Century Community Learning Centers	84.287	244	1,306,981.38	
Education Technology State Grants	84.318	121, 122	94,399.83	
Rural Education	84.358	110	232,293.16	
English Language Acquisition Grants	84.365	102	78,949.54	
Improving Teacher Quality State Grants	84.367	224	831,120.33	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RD211, RG311, RG811, RL111	714,307.21	19,723.53
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	783,274.75	544,616.32
Education Jobs Fund	84.410	541	32,092.00	
Washington County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	7224104	66,862.91	
Total Indirect			15,621,893.26	952,259.85
Total United States Department of Education			17,041,582.77	977,908.32
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	185,964.67	
Total Expenditures of Federal Awards			\$ 23,019,726.03	\$ 977,908.32

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

(2) Noncash Assistance - National School Lunch Program. Includes \$375,695.35 of donated foods received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Putnam County District School Board as of and for the fiscal year ended June 30, 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 Putnam County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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

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

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
March 27, 2013



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

Compliance

We have audited the Putnam County District School Board's compliance with the types of compliance requirements described in the *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.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 for the Title I Grants to Local Educational Agencies, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, and ARRA – State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act, programs and Federal Awards Finding No. 2.

Internal Control Over Compliance

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

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

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

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 for the Title I Grants to Local Educational Agencies, Fund for the Improvement of Education, Twenty-First Century Community Learning Centers, and ARRA – State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act, programs and Federal Awards Finding No. 2 to be significant deficiencies.

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

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
March 27, 2013

**PUTNAM 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)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered to be a material weakness(es)? Yes

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs except for Improving Teacher Quality State Grants (CFDA No. 84.367) and Teacher Incentive Fund (CFDA No. 84.374), which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Improving Teacher Quality State Grants (CFDA No. 84.367); Teacher Incentive Fund (CFDA No. 84.374); ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395-ARRA); and ARRA - State Fiscal Stabilization Fund (SFSF) – Government Services (CFDA No. 84.397-ARRA)

Dollar threshold used to distinguish between Type A and Type B programs: \$690,591

Auditee qualified as low-risk auditee? No

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. At June 30, 2012, the District reported cash and cash equivalents totaling \$55 million, of which cash in bank totaled \$15 million.

During the 2011-12 fiscal year, the District maintained 15 bank accounts. An accountant in the Division of Fiscal Services Office was responsible for preparing bank account reconciliations, and the chief financial officer was responsible for reviewing and approving the reconciliations. Other than the main bank account that received most District revenues, the payroll clearing bank account had the most activity with deposits and disbursements of \$79 million each for the 2011-12 fiscal year. The District had unidentified differences in the monthly payroll bank account reconciliations from July 2011 through May 2012 ranging from \$2,238 to \$6,121. The District made a \$12,307 adjusting journal entry as of June 30, 2012, to eliminate the unreconciled difference between the bank account balance and the general ledger balance; however, the causes and specific differences comprising the \$12,307 were not identified and, as of February 4, 2013, the District had not completed any monthly payroll bank account reconciliations subsequent to June 30, 2012.

District personnel indicated that implementation of a new financial accounting system prevented timely reconciliation of the payroll bank account because the system did not timely process certain transactions, such as Florida Retirement System deductions and contributions. We extended our audit procedures and determined that the cash account balances were materially correct and properly classified on the financial statements; however, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over cash accounts. Failure to properly complete bank account reconciliations in a timely manner increases the risk that errors or fraud could occur and not be promptly detected. Similar findings were noted in our report Nos. 2011-162 and 2012-167.

Recommendation: The District should enhance its procedures to ensure timely bank account reconciliations are properly completed, including prompt investigation and resolution of any differences.

ADDITIONAL MATTERS

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities.

In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains titles of bank accounts subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 fiscal year, the District regularly used EFTs for retirement benefits, Federal withholding taxes, direct deposits of employee pay, and transactions between District bank accounts. According to District records, cash in bank totaling \$15 million was available for electronic transfer at June 30, 2012. The District established a bank agreement signed by the Superintendent, the Board Chair, and two District employees designated as system administrators who could add, delete, or revise the capabilities (user profiles) of individuals authorized to make transfers. The system administrators and two other employees each had the capability to initiate and authorize EFTs, while two other employees had the capability to only initiate EFTs. The District used informal processes, including the use of an encrypted user authentication service and supervisory review of EFT transactions through e-mail notifications from the bank to control and monitor EFTs. However, the Board had not adopted written policies prescribing the accounting and control procedures for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. In addition, the bank agreement lacked the signatures of four of the six individuals authorized to initiate or authorize EFTs, contrary to SBE Rule 6A-1.0012, FAC. Further, an appropriate separation of duties did not exist as the system administrators and two other employees each had the capability to initiate and authorize EFTs without secondary authorization of the EFTs.

Our tests did not disclose any EFTs for unauthorized purposes; however, without a Board policy establishing policies and procedures governing EFT activities and addressing the use of electronic signatures, required signatures on bank agreements of employees designated to make EFTs, and appropriate separation of duties of initiating and authorizing EFTs, there is an increased risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-167.

Subsequent to our inquiry, the Board, in October 2012, approved a policy that requires written EFT agreements that establish the internal controls required by State law and SBE rules.

Recommendation: The District should enhance its procedures to ensure bank agreements contain required signatures of employees designated to make EFTs, and appropriate separation of duties of initiating and authorizing EFTs.

Finding No. 3: Restricted Capital Outlay Resources

Ad Valorem Taxation. Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay related purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; purchases of new and replacement equipment; and property and casualty insurance premiums to insure educational and ancillary plants subject to certain conditions and limitations. Section 1013.01(12), Florida Statutes, provides a definition of maintenance and repair that excludes custodial and groundskeeping functions. The District separately accounts for the transactions of each ad valorem tax levy in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2011-12 fiscal year, the District reported LCI Fund expenditures and transfers to the General Fund totaling \$818,461.09 and \$3,616,954, respectively. Our tests of these expenditures and transfers disclosed \$77,155.95 that was used for purposes not authorized by Section 1011.71, Florida Statutes, including \$28,590.55 for carpet cleaning, \$25,495.97 for tree trimming and landscaping, \$15,473.27 for repairs and maintenance of groundskeeping equipment, \$5,057.89 for repairs and maintenance of vehicles, \$2,098.84 for office supplies and copier rentals, and \$439.43 for pest control. In response to our inquiries, District personnel indicated the questioned expenditures resulted from miscoded expenditures and provided documentation that other allowable expenditures totaling \$332,547.80 for furniture, fixtures, and equipment and maintenance, repair, and renovation of educational facilities were available in the General Fund to offset the \$77,155.95 in unallowable expenditures. However, without adequate controls to ensure that District records evidence that ad valorem tax levy proceeds are expended for authorized purposes, the risk is increased that the District will violate applicable expenditure restrictions. A similar finding was noted in our report No. 2012-167.

Fuel Tax Refunds. Section 206.41(4)(e)1., Florida Statutes, provides that a portion of the sales tax paid by the District on fuel used in a District vehicle shall be returned to the District. Pursuant to Section 206.41(4)(e)2., Florida Statutes, the District must use the funds on District construction, reconstruction, and maintenance of roads and streets as a result of the construction of new schools or the renovation of existing schools. The District accounts for its fuel sales tax refunds in its Capital Projects – Local Fuel Tax (LFT) Fund.

For the 2011-12 fiscal year, the District had LFT Fund expenditures of \$49,000 for a concession stand and press box at the Palatka High School baseball field. However, these expenditures were not for construction, reconstruction, and maintenance of roads and streets, contrary to Section 206.41(4)(e)2., Florida Statutes. In response to our inquiry, District personnel indicated these expenditures were charged to the LFT Fund in error, and District records were provided to evidence that the moneys were restored to the LFT Fund from other available sources in January 2013.

Recommendation: The District should enhance its procedures to ensure that restricted capital outlay resources are expended only for authorized purposes.

Finding No. 4: Facilities Management

The facilities and maintenance department is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. In addition, department personnel perform heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, the department employed 36 employees and the department's operating cost was \$3.2 million. Also, during the fiscal year, the District had expenditures totaling \$1.4 million for capital projects fund construction

and renovation projects and, as shown on the District's Five-Year Work Plan as approved by the Board on September 20, 2011, the District planned to spend an additional \$26.7 million on construction and renovation projects over the next four fiscal years, although a funding source had not been identified to pay for the additional projects. At June 30, 2012, the historical cost of the District's education and ancillary facilities was \$129 million and, as shown on the Florida Department of Education (FDOE)'s Florida Inventory of School Houses data, District facilities had an average age of 36 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establishing documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review indicated that District procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Construction Planning.** School districts benefit from long-range facilities construction planning activities that include consideration of stakeholder input, including District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders. A committee comprised of such individuals may help the District with facility construction decisions based on actual or anticipated commercial or residential expansion efforts and population demographics.

The District communicates information regarding long-range planning and the status of the facilities program through Board-approved educational plant surveys, which are completed every five years and FDOE-required Five-Year Facilities and Work Plans, which are updated each year. The District also had a group comprised of local professionals and business owners that briefly discussed District capital outlay needs during a prior fiscal year. However, the District has not established ongoing committees to consider stakeholder input, comprised of District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders with the responsibility of developing long-range construction priorities. The use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts using the construction management at-risk method with a guaranteed maximum price. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine for each major construction project or significant maintenance-related job which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost effective and beneficial construction method or maintenance technique.
- **Accountability.** The District's facilities and maintenance department has established short-term and long-term goals; however, these goals did not address accountability for the department. For example, the goals for the department included such objectives as providing a safe and comfortable environment for students and staff, addressing life-safety deficiencies, and replacing older HVAC systems and equipment in District facilities to reduce operational and maintenance costs. However, the goals did not sufficiently identify efficiency or cost-effective outcomes.

To adequately establish outcome measures, the department could set goals such as completing construction or maintenance projects that meet or exceed building code standards at the lowest possible cost. Progress in

attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities and maintenance department is operating as cost-effectively and efficiently as possible.

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative significant construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance department to identify efficiency or cost-effectiveness outcomes for department personnel.

Finding No. 5: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. Additionally, there is a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the 2011-12 fiscal year, the District reported to the FDOE 18,977 adult general education instructional contact hours for 434 students enrolled in 811 classes. We tested 761 hours reported for 15 students enrolled in 29 classes and noted that the District misreported hours for 14 students enrolled in 28 classes, as follows:

- Because 2 students were not enrolled in the requisite 12 hour minimum, the District overreported the students by 14 hours. We extended our review to the entire population and noted that 118 additional students were not enrolled in the requisite 12 hour minimum, resulting in an additional 923 hours overreported.
- For 12 students, the District reported fewer hours attended rather than the hours students were reasonably expected to attend, based on inquiry from District personnel, resulting in 1,386 hours being underreported for the students.

A similar finding was noted in our report No. 2012-167. Effective July 1, 2012, the District's adult general education program was transferred to St. Johns River State College.

Recommendation: The District should determine the extent of adult general education hours misreported and contact the FDOE for proper resolution.

Finding No. 6: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)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 workday, such as supplements for coaches and grade and club sponsors. The instructional salary schedule also provided for a one-time payment for personnel to relocate to schools identified as extremely difficult due to school demographics, supplements for level of job performance difficulties for challenging assignments not normally associated with the employee's job description, and supplements for critical shortage areas identified by the District. While the District made salary payments to instructional personnel for additional responsibilities, no differentiated pay was provided to employees during the 2011-12 fiscal year for school demographics, level of job performance difficulties, or critical shortage areas. In the absence of providing differentiated pay, the usefulness and relevance of the established differentiated pay factors for school demographics, level of job performance difficulties, and critical shortage areas were not readily apparent.

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. 2011-162 and 2012-167.

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. 7: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure contracts generally document the responsibilities of the parties to the contract and ensure that payments are consistent with contract terms and conditions. For the 2011-12 fiscal year, payments for contractual services exceeded \$10 million.

Effective contract management requires monitoring of contractor performance and service delivery to ensure compliance with the terms and conditions of the contract, verifying receipt of contract deliverables, and evaluating the achievement of related District goals. Effective contract management also requires verification, prior to payment, that contractor-submitted charges are allowable and adequately documented. To determine the propriety of payments for

contractual services during the 2011-12 fiscal year, we reviewed District monitoring procedures, tested expenditures totaling \$1.1 million from 31 contracts, and noted procedures could be enhanced, as follows:

- Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract, the Sheriff's Office was responsible for providing school resource officer (SRO) and other services for \$410,000. The contract provided that \$410,000 was the maximum budgeted amount for consideration of the services provided, and the District paid the Sheriff's Office biannually (\$205,000 on January 13, 2012, and \$205,000 on June 6, 2012) based on requests from the Sheriff's Office. The contract also required each SRO to complete a daily activity log and provide it to their supervisor at the Sheriff's Office. However, District personnel did not maintain SRO sign-in, sign-out time records or review the daily activity logs maintained at the Sheriff's Office to verify services were properly received.
- The Board entered into two contracts with a consultant to obtain services for grant writing and evaluation with payments totaling \$291,188 for these services. Each contract stipulated a \$75 hourly rate, not to exceed \$48,000 (640 hours) for the grant writing contract, and not to exceed the grant budget amounts for evaluation services. Each contract required the consultant to perform specified tasks and activities, such as working collaboratively with District personnel to write grants, and assisting the project director in meeting the reporting requirements of each grant for the evaluation services contract. The consultant's invoices identified the dates and hours worked, staff member performing the work, and descriptions of services provided. Although many of the invoice descriptions corresponded with deliverables listed in the contracts, many did not. For example, the consultant invoiced the District \$11,513 for working on a charter school application to be submitted by a District foundation (Edge for Educational Excellence, Inc.), and \$6,863 for writing a grant for another school district; however, these services did not appear to be either grant writing or grant evaluation services. We noted costs totaling \$88,932 that, based on invoice descriptions, were not for grant writing or grant evaluation services, of which \$65,532 was paid from Federal programs as discussed in Federal Awards Finding No. 1 (Allowable Costs/Cost Principles – Program Evaluation Services), and \$23,400 was paid from other District sources.
- The Board awarded a bid to a company for painting services at hourly rates. The District issued purchase orders, individually ranging from \$1,100 to \$13,300 for a total of \$76,110, and paid \$98,910 or \$22,800 more than the purchase orders issued to the company. Our review of 14 invoices totaling \$58,580 submitted by the company disclosed that 6 invoices totaling \$17,200 were not supported by purchase orders; 2 invoices were paid in excess of the authorizing purchase orders by \$5,600; and none of the invoices indicated the number of workers on the job or the hours worked to provide a basis for the amounts billed. For example, we noted one purchase order and invoice for \$12,800 for labor to prep and paint all hallways at a middle school. The invoice was dated four days after the purchase order was issued and, using the bid award's average hourly rate of \$12.50 per hour, equates to 1,024 hours of labor. Without documentation of the basis for the amounts billed, District records do not evidence that the amounts paid were reasonable or in accordance with the bid award. In response to our inquiries, District personnel indicated the vendor was advised of the need to provide more detailed invoices.
- The North East Florida Educational Consortium (NEFEC) provided certain services related to District principal and teacher evaluations for \$75,000, and the District made periodic payments from August 2011 through April 2012 for these services; however, the contract did not specify the places that would receive the services, the expected times that the services would be performed, or how receipt of the contracted deliverables would be documented. Consequently, District records did not evidence the services and related deliverables that the District received for this contract and the basis upon which the District made payments to NEFEC for these evaluations.
- The Board awarded a bid to a company for asphalt work services at per square foot rates. The District issued 13 purchase orders to the company, ranging from \$200 to \$22,600 for a total of \$42,531.38, and paid \$42,801.38 or \$270 more than the purchase orders issued to the company. Our review of payments totaling \$24,500 for asphalt work disclosed that the invoices only indicated a lump sum amount and District records did not evidence the square footage of the area worked on or the rates charged. District personnel indicated that costs were based on measurements taken by District and contractor personnel during site meetings;

however, without documentation of the basis for the amounts billed, District records do not evidence that payments were made in accordance with the bid award.

- The Board entered into four contracts totaling \$41,750 with one consultant to provide implementation of wellness and fitness programs, management of an accelerated math program, and project management for custodial services. Each contract stipulated a \$25 hourly rate and maximum contract amount. During the 2011-12 fiscal year, the District paid a total of \$38,725 for these services, and the consultant submitted time sheets, approved by supervisory personnel, to support payments for the services. However, the contracts did not adequately describe the consultant's duties and responsibilities as they did not specify the services that would be provided, the places that would receive the services, or the expected times that the services would be performed. In addition, for the accelerated math program, the District made payments of \$950 more than the contract maximum (\$25,000), and District records did not evidence any efforts to recover this overpayment.
- The Board contracted with a consultant to provide cross site trainer services for \$1,500 a month for nine months. District personnel indicated that the contractors' hours for cross site trainer responsibilities were from 9 am to 2 pm Monday through Thursday, although time records for these services were not required to be maintained because the contract was based on providing monthly services. However, neither the invoices submitted nor other District records evidenced the specific work performed or that District personnel with direct knowledge confirmed receipt of the services.

District records indicated that contractor invoices were approved by supervisory personnel based on personal knowledge of the work performed; however, given the lack of specific contractual deliverables and the timeframe for the deliverables, there is an increased risk that the services may not be consistent with the Board's intent. Also, without effective procedures that reconcile payments to contract terms and conditions and confirm that services are received prior to payment, there is an increased risk of overpayments or that errors or fraud could occur without timely detection.

Recommendation: The District should ensure that written agreements for contracted services describe the nature and timing of deliverables, and enhance its monitoring procedures to ensure that vendor invoices are complete and in accordance with the contract. For the accelerated math program, the District should recover the \$950 overpayment for consultant services.

Finding No. 8: Compensation for Additional Work

The District pays contracted employees on a payroll by exception basis in which employees generally receive their regular pay each period, unless employees use more leave than accumulated, resulting in a reduction to their salary, or provide additional work, in which case they are compensated for the extra services. For the 2011-12 fiscal year, the District reported payroll expenditures of \$1.9 million for additional work.

The District had informal procedures for approving and documenting additional work, which generally involved obtaining Board approval and submitting documentation, such as time sheets, attendance rosters, or other memoranda, that authorized the payroll department to pay for the additional work. However, the Board had not developed written policies and procedures to document the process for approving and documenting additional work. Our tests of 37 compensation payments totaling \$27,481.73 to 17 employees for additional work disclosed controls over these payments could be enhanced, as follows:

- Some of the employees included in our test were paid for attending training programs in Orlando or Fort Lauderdale. We determined that a total of 53 employees were paid \$400 each, totaling \$21,200, for attending four days of training from June 18 through June 21, 2012, in Orlando or June 25 through June 28, 2012, in Fort Lauderdale. The payments were generally supported by a list of employee names and the number of days attended. However, for the 5 employees included in our tests, District records did not evidence the four

day class the employees attended or sign in sheets to support attendance. Two of the 5 employees were also paid for performing additional work, such as analyzing student data, reviewing and revising curriculum, preparing and installing new equipment, and updating the school Web site during the June 25 through June 28, 2012, time frame. However, without District records to evidence the dates each employee attended the training, it was uncertain whether the employees were paid for overlapping training and additional work times or whether the employees attended the June 18 through 21, 2012, training days.

- One employee included in our test was paid \$325 for attending an FDOE Next Generation Content Area Professional Development training program. The Board approved paying employees up to 13 hours at \$25 per hour, or a maximum of \$325, for participating in the training program, and 18 employees were paid a total of \$5,675 for attending the program. A memorandum and certificate of completion were included as support for paying \$325 to the employee included in our test; however, the District did not maintain time records, such as sign-in/sign-out sheets, to evidence the dates and times that the employee attended the 13 hours.
- For another employee included in our test, the Board approved paying the employee at their regular rate of pay (\$30.08 per hour) in June 2012 to analyze student data and prepare for the next year. The employee reported working 7.25 hours (8:00 am to 12:30 pm and 1:15 pm to 4:00 pm) on June 13, 2012, and was paid \$218.08. In addition, the employee was also compensated \$150 for the presentation and preparation of training to guidance counselors and deans from 9:00 am to 11:00 am on June 13, 2012. In these circumstances, it appears the employee was overpaid for services that overlapped from 9:00 am to 11:00 am on June 13, 2012, resulting in an overpayment of \$60.16.

Absent written policies and procedures, and adequate records to support compensation for additional work, there is an increased risk that errors or fraud may occur and not be timely detected. In response to our inquiries, District personnel indicated that a methodology for additional pay has been developed and that policies and procedures still need to be completed. A similar finding was noted in our report No. 2012-167.

Recommendation: The Board should adopt written policies and procedures for additional compensation to ensure such compensation is necessary, reasonable, timely-approved, and supported by adequate documentation. The District should also recover the \$60.16 overpayment to the employee for analyzing student data.

Finding No. 9: Purchasing Cards

To expedite the purchase of selected goods and services, the District implemented a purchasing card program, effective July 2011, primarily for travel and approved business purchases. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and cannot be used for gift cards. Also, the agreement with the financial institution processing purchasing card transactions requires that payments be made within 14 days after the statement closing date and that disputed charges be resolved within a reasonable period of time.

During the 2011-12 fiscal year, purchasing cards prescribed monthly and transaction limits and were issued to nine cardholders and used mainly by the Superintendent, department supervisors, and the accounts payable clerk. Six cardholders made purchases ranging from \$1,934 to \$25,990, and the accounts payable clerk made purchases totaling \$3.3 million. The accounts payable clerk generally made purchasing card purchases that were initiated and approved by supervisor personnel through the normal purchase order process and the clerk contacted vendors to determine whether they would accept the purchasing card for payment, instead of issuing a District warrant. In addition, the Superintendent reviewed and signed monthly purchasing card bank statements to evidence approval of the charges.

Our tests of supporting documentation for selected purchasing card transactions disclosed that controls needed improvement, as follows:

- Monthly purchasing card credit limits for individual cardholders ranged from \$3,000 to \$450,000 and may be changed as needed; however, District records did not evidence that the reasonableness of the monthly and single transaction credit limits were reviewed for actual card use. For example, the Superintendent's purchasing card had a monthly limit of \$25,000 and a single transaction limit of \$5,000. However, from July 2011 through September 2012, the Superintendent had monthly purchases ranging from only \$50.24 to \$8,514.64, resulting in monthly and single transaction limits that appeared excessive based on actual card use.

Further, the accounts payable clerk, whose monthly and single transaction limits were \$450,000, used the purchasing card to expedite purchases from certain vendors. The accounts payable clerk made single transaction purchases ranging from \$5.42 to \$112,586.60. Based on the accounts payable clerk's spending patterns, the \$450,000 single transaction limit appears excessive.
- Contrary to the purchasing card guidelines, the accounts payable clerk purchased gift cards totaling \$5,275 for awards to employees through the District's wellness program.
- District personnel used purchasing cards to prepay for two hotel rooms for 12 days costing \$4,236.72. Because of dissatisfaction with the accommodations, the rooms were not used and personnel moved to another hotel after canceling the reservations; however, District records did not evidence any efforts to obtain a refund for the unused rooms. Subsequent to our inquiry, District personnel began efforts to obtain a refund.

Although purchasing cards are useful for expediting the payment of certain purchases in an efficient manner, without effective monitoring procedures, there is an increased risk that purchasing cards will be used for unauthorized purchases or that errors or fraud may occur without timely detection.

Recommendation: The District should enhance controls over purchasing cards to ensure that the reasonableness of purchasing card credit limits is documented to justify the basis for the limits and purchasing card use is in accordance with established purchasing card procedures.

Finding No. 10: Support Services Appreciation Fund

District personnel deposited \$9,000 that was received from the sale of scrap metal into a separate project account in the General Fund. According to District personnel, the original intent was to use the moneys for maintenance and facilities department personnel appreciation and incentives. During the 2011-12 fiscal year, the District reported expenditures of \$3,766.43 from the project account for water and sports drinks costing \$1,086.45 for custodians working during summer months; food and related items costing \$970.55 for a maintenance department Christmas social; reimbursement to a school for food and related items costing \$790.10 for a back-to-school party; food costing \$320.09 for a custodial seminar; food, decorations, and supplies costing \$226.43 for a maintenance employee's retirement party; food and supplies costing \$253.82 for a professional development workshop; and cake and ice cream costing \$118.99 provided during custodial training.

Based on the descriptions and supporting documentation provided, these expenditures generally appeared to be for hospitality and entertainment. In response to our inquiries regarding the authorized public purpose for these expenditures, District personnel indicated that the project was established to foster good will and encourage increased productivity. However, according to Attorney General Opinion No. 68-12, the expenditure of public funds for hospitality and entertainment, without specific legal authority, are not proper expenditures. Although SBE Rule 6A-1.0143, FAC, provides for expenditures from auxiliary enterprises and undesignated gifts in accordance with rules of the school or for promotion, public relations, and hospitality of business guests, including activities involving

graduation, visiting committees, work conferences, and certain other activities, we are unaware of any such specific authority regarding expenditure of District moneys derived from the sale of scrap metal for the aforementioned purposes.

Recommendation: The District should enhance its procedures to ensure that expenditures are only for authorized public purposes.

Finding No. 11: Charter School Application Evaluations

Section 1002.33(6), Florida Statutes, establishes the process for review and approval of charter schools, including submission of a charter school application that identifies the applicant's goals and intentions for meeting the goals. This statute also requires that charter school sponsors review and evaluate these applications based on specific criteria developed by the FDOE. Pursuant to SBE Rule 6A-6.0786, FAC, the application must include certain information for the sponsor to evaluate, such as:

- An education plan that defines what students will achieve, how they will achieve it, and how the school will evaluate performance. The education plan includes the charter school's proposed mission, guiding principles and purpose, its target population and student body, its educational program design, curriculum plan, student performance, assessment, and evaluation plan, and school climate and discipline;
- An organizational plan providing an understanding of how the school will be governed and managed. The organizational plan includes a governance section describing how the policy-making and oversight function of the school will be structured and operate; a management section describing how the day-to-day administration of the school's operations will be structured and fulfilled; an education service provider section describing, if applicable, the contractual arrangement between the school's governing board and such a provider; an employment section defining the policies and procedures that frame the school's relationship with its staff; and a student recruitment and enrollment section describing how the school will attract and enroll its student body; and
- A business plan providing an understanding of how the school's finances will be managed, including a clear picture of the school's financial viability based on the soundness of revenue projections, expenditure requirements, and the alignment of the educational program with the school's budget. The business plan also addresses the school's facilities, transportation, and food service needs and how they will be met; its budget with financial projections over the term of the charter; a description of how the school's finances will be managed and who will be responsible for the protection of student and financial records; and an action plan providing a clear roadmap of the steps and strategies that will be employed to prepare the school to be ready to serve its students well on the first day of operation.

In August and September 2011, the Board received charter school applications from Edge for Educational Excellence, Inc., and Putnam Academy of Arts and Sciences, Inc., respectively. District personnel indicated that Board members evaluated the two charter school applicants by electronically accessing and using criteria developed by the FDOE and discussing whether the applicants met the criteria. The Board approved the District to sponsor the charter schools and entered into contracts with them. However, District records did not evidence that the Board evaluated the charter school applicants using the FDOE-established criteria, such as documented evaluations of the charter schools' education, organizational, and business plans. Without documented evaluations of charter school applicants, there is an increased risk that the District may approve applicants for charter school status that may not adequately manage their financial resources and successfully continue operations.

Recommendation: The District should enhance its controls to ensure documented evaluations of charter school applicants using the FDOE-established criteria. Such documented evaluations should include detailed assessments of the charter school's educational, organizational, and business plans as required by SBE rules.

Finding No. 12: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties.

The District is fiscal agent and a participating member of the NEFEC, which provides IT services to the participating members through the Educational Technology Service (ETS) data center. Also, the participating districts and institutions may have their own IT employees; however, the District had not developed procedures for or performed periodic reviews of access privileges. Our test of selected access privileges to the District's network and finance and human resources (HR) applications disclosed some access privileges that permitted employees to perform incompatible functions, indicating a need for periodic District review of access privileges. Specifically:

- Twenty network accounts, including employee and service accounts, had administrator access privileges to the network. Administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network resources. Limiting the number of network accounts with administrator privileges increases the District's ability to restrict and manage the use of administrator privileges, reducing the risk of compromise and unauthorized network hardware, software, or configuration changes.
- Thirteen employees had update privileges to critical functions within the finance application, including the ability to add and update vendor records and addresses, add and change purchase orders, and process payments. Eight of the 13 employees could also create and record journal entries within the finance application. In addition, 19 employees had the capability to add an employee within the HR application and 11 of the 19 employees had update privileges to one or more other critical functions within the HR application, including the ability to adjust salary records, create payroll runs, and update direct deposit information. The access privileges did not enforce an appropriate separation of end-user duties.
- Seven accounts assigned to ETS employees and two accounts assigned to District employees had systemwide access privileges that allowed update access to all critical functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data files.

Although the District had controls in place (e.g., separation of the duties for initiating and approving purchases, adding and updating vendors, payroll updating and processing, and department supervisor monitoring of budget and actual expenditures) to help mitigate the effect of the inappropriate application access privileges described above, the District had not developed written policies and procedures for routine monitoring of the financial application security logs to timely detect unauthorized system activity. Without adequate monitoring of system activity, including changes to critical or sensitive data, there is an increased risk of unauthorized disclosure, modification, or destruction of District data or IT resources. Similar findings with regard to ETS staff access and monitoring of financial application security logs were noted in our report Nos. 2011-162 and 2012-167.

Recommendation: The District should periodically review the appropriateness of access privileges, including administrator privileges within the network and application and remove or adjust any inappropriate or unnecessary access detected. The District should also develop written policies and procedures for the routine monitoring of financial application security logs to provide increased assurance of timely detecting unauthorized system activity, should it occur.

Finding No. 13: Information Technology – Access Control Records

The State of Florida *General Records Schedule GS1-SL for State and Local Government Agencies (General Records Schedule)*, revised by the Florida Department of State effective August 2010, provides that access control records, which includes such historical information as an employee's network account, access profile, and permission records, must be retained for one anniversary year after superseded or after an employee separates from employment.

Contrary to the *General Records Schedule* requirements, the District's practice was to delete an employee's network account from the system upon termination and delete an employee's application account following final payroll processing, typically within 60 days of termination of employment. Following this practice, the District did not retain for one anniversary year the employee's historical electronic access control record, including network account, access profile, and permission records, in the enterprise resource planning system.

Without adequate retention of access control records, the risk is increased that the District may not have sufficient documentation to assist in future investigations of security incidents, should they occur. Additionally, the District is not in compliance with the State's record retention requirements.

Recommendation: The District should ensure that access control records are retained as required by the *General Records Schedule*.

Finding No. 14: Information Technology – Timely Deactivation of Access Privileges

Effective management of IT access controls includes the timely deactivation of employee IT access privileges when an employee is reassigned or terminated. Prompt action is necessary to ensure that the access privileges are not misused by reassigned or former employees or others to compromise data or IT resources.

District security personnel indicated that reassignment and termination procedures included provisions for deleting the reassigned or former employee's network account and removing critical access privileges from the employee's application account. Terminated employee access deactivation procedures require the application account to remain defined to the application until final payroll processing. Following final payroll processing, the former employee's application account was to be deleted, as discussed in Finding No. 13. Our test of 25 former employees who terminated employment during the 2011-12 fiscal year disclosed that the finance application access privileges of 2 former NEFEC employees remained active for 129 and 429 days, respectively, after employment termination. Also, the network access privileges of one District employee remained active for 170 days after employment termination. The network allows access to certain critical application systems and confidential or sensitive information stored within documents and files.

In response to our inquiry, District personnel indicated that, based on their review of transaction logs, the former NEFEC employees' application accounts had not been used subsequent to termination. However, because the network logs were no longer available at the time of our inquiry, District management was unable to determine whether the former District employee's network account had been used subsequent to termination. When the access

privileges of reassigned or former employees are not timely deactivated, the risk is increased that the access privileges may be misused by the former employees or others.

Recommendation: The District should enhance its controls to ensure that the access privileges of reassigned or former employees are timely deactivated.

Finding No. 15: Information Technology – Security Controls – User Authentication and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain security controls related to user authentication and data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: The District should improve its security controls related to user authentication and data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Federal Direct Programs: Fund for the Improvement of Education (CFDA 84.215); Teacher Incentive Fund (CFDA No. 84.374)

Award Number: Fund for the Improvement of Education Q215E110335; Teacher Incentive Fund S374A100033

Pass-Through Entity: Florida Department of Education

Pass-Through Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Improving Teacher Quality State Grants (CFDA No. 84.367); ARRA – State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395)

Finding Type: Material Noncompliance and Material Weakness (CFDA Nos. 84.374 and 84.367); and Noncompliance and Significant Deficiency (CFDA Nos. 84.010, 84.215, 84.287, and 84.395)

Questioned Costs: Fund for the Improvement of Education - \$2,288; Teacher Incentive Fund - \$60,007; Title I Grants to Local Educational Agencies - \$8,372; Twenty-First Century Community Learning Centers - \$6,375; Improving Teacher Quality State Grants - \$164,682; ARRA – State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act - \$20,231

Allowable Costs/Cost Principles. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C, provides that for an expenditure to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal award and must be adequately documented. The cost must also be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. Additionally, OMB Circular A-87, Attachment B, provides in part that, in

determining the allowability of professional service costs, consideration should be given to the adequacy of the contractual agreement (e.g., description of service, estimate of time required, rate of compensation, and termination provisions).

The District reported program expenditures as follows for the 2011-12 fiscal year:

Federal Program	Expenditures
Fund for the Improvement of Education	\$ 251,047
Teacher Incentive Fund	895,431
Title I Grants to Local Educational Agencies	5,074,754
Twenty-First Century Community Learning Centers	1,306,981
Improving Teacher Quality State Grants	831,120
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	781,170
Total	<u>\$ 9,140,503</u>

We tested 44 expenditures totaling \$416,773 for the Teacher Incentive Fund (TIF) program; 43 expenditures totaling \$705,261 for the Title I Grants to Local Educational Agencies (Title I) program; 50 expenditures totaling \$89,382 for the Twenty-First Century Community Learning Centers (Twenty-First Century) program; 40 expenditures totaling \$262,205 for the Improving Teacher Quality State Grants (ITQ) program; and 40 expenditures totaling \$710,492 for the ARRA – State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants, Recovery Act (RTTT) program. Although not tested as a major Federal program, we also tested 8 expenditures totaling \$18,075 for the Fund for the Improvement of Education (FIE) program because the payments were included in the same vouchers and paid to the same vendors as those included in our tests of major Federal program expenditures.

Our tests of expenditures disclosed the following:

- **Contracted Program Training and Materials.** The Board approved six contracts with a foundation for professional development services for the 2011-12 fiscal year, comprised of five contracts totaling \$334,068 paid from ITQ program funds for 164 training sessions and one contract totaling \$81,480 paid from Title I program funds for 40 training sessions. The cost of the training was \$2,037 per day and was prepaid to take advantage of a 3 percent discount; however, District records did not evidence District personnel verified that the services purchased were received. District personnel provided copies of letters that the foundation provided subsequent to making school site visits indicating dates visited and describing the activities conducted; however, the letters discussed activities such as observing classrooms, meeting with teachers, and reviewing data and plans, and did not address professional development activities as specified in the contracts.

In response to our inquiry, District personnel attempted to reconcile the letters received to specific contracts using sign-in sheets and employee calendars and verified 93.5 training days for the ITQ program and 38 training days for the Title I program, leaving 70.5 unidentified training days for the ITQ program and 2 unidentified training days for the Title I program, resulting in questioned costs of \$143,609 and \$4,074, respectively, subject to disallowance by the grantor. When charges to Federal programs are not properly monitored, the risk increases that services may not be performed in accordance with grant terms and District intentions.

The District also received credit memos totaling \$21,073 from this company for unused training days from the 2010-11 fiscal year for the ITQ program. The District used the credit to purchase student instructional materials at two schools; however, the student instructional materials purchases are contrary to the allowable uses of ITQ program funds and, therefore, these expenditures, totaling \$21,073, represent questioned costs subject to disallowance by the grantor.

- **Program Evaluation Services.** The Board contracted with a company for program evaluation services and paid \$243,188, including TIF expenditures of \$137,213, Twenty-First Century expenditures of \$51,900, RTTT expenditures of \$36,000, and FIE expenditures of \$18,075. However, service descriptions documented on invoices disclosed expenditures totaling \$65,532 that were not related to program activities, including TIF expenditures of \$36,638, Twenty-First Century expenditures of \$6,375, RTTT expenditures of \$20,231, and FIE expenditures of \$2,288. For example, the contractor submitted invoices totaling \$6,863 for 91.5 hours of work from May 8, 2012, to June 20, 2012, for the TIF program, although descriptions on the invoices indicated the services were for NEFEC or the NEFEC TIF program, and the District had a separate agreement with the contractor for \$8,775 to provide grant writing services for another school district's TIF program.

In response to our inquiries, District personnel indicated that all the charges were to be paid as invoiced and approved by the District's former superintendent. Absent documentation evidencing that these charges to Federal programs are directly related to program objectives, these expenditures, totaling \$65,532, represent questioned costs subject to disallowance by the grantor.

- **TIF Web Application Development Services.** The Board contracted with a company for Web application development services for the TIF program. The Board-approved contract for these services provided for payment based on hours billed by the company's programmer analyst at \$85 per hour and programmer tester at \$70.55 per hour. For the 2011-12 fiscal year, the company was paid \$248,838 from the TIF program, and the invoices submitted evidenced the hours worked by the programmer analyst and programmer tester and provided a general description of the work performed; however, the 1,617.25 hours reported for the programmer tester were billed at \$85 per hour rather than the \$70.55 per hour rate specified in the contract, resulting in questioned costs of \$23,369.

In response to our inquiry, District personnel indicated that a refund of \$28,921 was requested from the company comprised of \$23,369 for the 2011-12 fiscal year and \$5,552 from the 2010-11 fiscal year. A similar finding was noted in our report No. 2012-167.

- **Title I Janitorial Services.** The Board contracted with a company and paid the company \$4,080 from Title I program funds for janitorial services. However, janitorial services are considered operation of plant activities and, as such, are considered indirect cost activities. Because the Title I program was assessed indirect costs of \$66,830 in addition to cost of contracted janitorial services, these expenditures, totaling \$4,080, are not necessary and reasonable and, therefore, represent questioned costs subject to disallowance by the grantor.
- **Title I Tutoring Services.** Title I program funds were used to compensate tutors on an hourly basis. Our review disclosed mathematical errors in three time sheets resulting in overpayments of \$218. These overpayments, totaling \$218, represent questioned costs subject to disallowance by the grantor. In response to our inquiries, the District requested refunds from the tutors.

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

Recommendation: The District should enhance its procedures to ensure that Federal program expenditures are only for allowable program purposes, and charges are properly approved, documented, and supported. In addition, the District should document to the grantor (FDOE) the allowability of questioned costs of \$164,682 for ITQ, \$20,231 for RTTT, \$8,372 for Title I, and \$6,375 for Twenty-First Century programs. The District should also document to the grantor (United States Department of Education) the allowability of questioned costs of \$60,007 for TIF and \$2,288 for FIE programs.

Federal Awards Finding No. 2:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$83,226**

Matching, Level of Effort, and Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of local funds or the combined State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long term purchases, such as the acquisition of equipment and the construction of school facilities.

We reviewed the District's State and local revenues and expenditures for special (exceptional student) education, in total and average per capita, and noted that the District's required expenditure effort decreased from the 2010-11 fiscal year to the 2011-12 fiscal year in total and average per capita. Using the most favorable calculation measure (average per capita or per student local effort based on FDOE calculation methodology), we determined that the District's local fiscal effort for exceptional student education decreased from \$2,346 per student to \$2,313 per student, or 1.4 percent from the 2010-11 fiscal year to the 2011-12 fiscal year, resulting in a maintenance of effort shortfall of \$83,226 as shown in the table below:

Per Student Local ESE Effort Analysis	Fiscal Year	
	2011-12	2010-11
Full-time Equivalent (FTE) Base Student Allocation (BSA)	\$ 3,479	\$ 3,624
Multiplied by: District Cost Differential	0.9651	0.9656
Modified BSA	3,358	3,499
Multiplied by: Exceptional Student Education (ESE) Weighted Students (Levels 254 and 255 Severe Handicapped)	144	164
ESE BSA	483,552	573,836
Add: State ESE Guaranteed Allocation	3,350,930	3,490,141
Total State ESE Effort	3,834,482	4,063,977 (A)
Total General Fund ESE Expenditures (Function 5200)	9,666,778	10,145,996 (B)
Difference: Total Local ESE Effort	5,832,296	6,082,019 (B - A)
Divide by: Total ESE Weighted FTE (Levels 111-113, 254 and 255)	2,522	2,592
Local ESE Effort per Student	2,313	2,346
Less: Local ESE Effort per Student 2010-11 Fiscal Year	(2,346)	
Decrease in Local ESE Effort per Student	(33)	
Multiply by: Total ESE Weighted FTE (from above)	2,522	
Total Decrease in Per Student Local ESE Effort	\$ (83,226)	

Source: District Expenditure and FDOE State Funding Records

The deficiency in maintenance of effort, totaling \$83,226, represents questioned costs subject to disallowance by the grantor. In response to our inquiries, District personnel indicated that the shortfall resulted mainly from a reduction in the District's required contribution rate to the Florida Retirement System from 10.77 percent of employee salaries to 4.91 percent.

Recommendation: The District should document to the grantor (FDOE) its compliance with Federal maintenance of effort requirements or restore \$83,226 to the Special Education programs.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-167. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-167, Finding No. 2	Audit Report No. 2011-162, Finding No. 2
2	Audit Report No. 2012-167, Finding No. 4	NA
3	Audit Report No. 2012-167, Finding No. 3	Audit Report No. 2011-162, Finding No. 5
5	Audit Report No. 2012-167, Finding No. 9	NA
6	Audit Report No. 2012-167, Finding No. 6	Audit Report No. 2011-162, Finding No. 4
8	Audit Report No. 2012-167, Finding No. 8	NA
12	Audit Report No. 2012-167, Finding No. 11	Audit Report No. 2011-162, Finding No. 7
Federal Awards Finding No. 1	Audit Report No. 2012-167, Federal Awards Finding No. 1	NA

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*PUTNAM COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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
2010-152 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559),	During the 2008-09 fiscal year, the District transferred \$2,464,721 from the internal service fund to the General Fund without making a determination of the portion that should be credited to Federal programs. Subsequently,	Partially corrected.	Pending resolution from the grantor. During the 2011-12 fiscal year, the District transferred
2011-162 (1)	Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392);	District transferred \$998,075 back to the internal service fund; however, as of January 2012, the District still had not made a determination of the portion of the \$1,466,646 that should be credited to Federal programs.		\$934,150.42 to the internal service fund and anticipates transferring the remaining amount back to the internal service fund during the 2012-13 fiscal year.
2012-167 (3)	Twenty-First Century Community Learning Centers (CFDA No. 84.287); Education Technology State Grants (CFDA No. 84.318); Improving Teacher Quality State Grants (CFDA No. 84.367); Teacher Incentive Fund (CFDA No. 84.374); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397); and Education Jobs Fund (CFDA No. 84.410) - Allowable Costs/Cost Principles - Transfer of Insurance Program Assets			
2012-167 (1)	Teacher Incentive Fund (CFDA No. 84.374), Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles	Certain expenditures for various Federal programs were not always properly approved, documented, and supported, resulting in \$239,685 of questioned costs (Title I, Part A Cluster - \$173,433; Teacher Incentive Fund - \$59,252; and Twenty-First Century Community Learning Centers - \$7,000).	Partially corrected.	The District refunded the Teacher Incentive Fund program \$53,700 for a multi-function copier and printer. Pending resolution from the grantors for the remaining questioned costs.
2012-167 (2)	State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397) - Procurement	Contracting and monitoring controls were not sufficient to ensure that services and charges for the State Fiscal Stabilization Fund were appropriate, resulting in \$40,300 of questioned costs.	Uncorrected.	Pending resolution from the grantor.

EXHIBIT A
MANAGEMENT'S RESPONSE



March 26, 2013

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

Dear Mr. Martin:

Attached is our response to the preliminary and tentative audit findings and recommendations for the Putnam County School District for the fiscal year ended June 30th, 2012.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Phyllis L. Criswell".

Phyllis Criswell
Superintendent of Schools

Phyllis Criswell
Superintendent

Nikki Cummings
District I

Lisa Parsons
District II

Terry Wright
District III

Kathy Jorgensen
District IV

C. L. Overturf, Jr.
District V

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 1: Bank Account Reconciliations

Recommendation: The District should enhance its procedures to ensure timely bank account reconciliations are properly completed, including prompt investigation and resolution of any differences.

Response: All accounts, with the exception of one, are reconciled to date. There are procedures in place to ensure timely reconciliations of bank accounts and prompt investigation and resolution of any differences in the District's other fourteen (14) bank accounts. The payroll bank account reconciliation is the exception. We are in the process of reevaluating the procedures to identify the major area of concern which is the issuing of wire transfers out of the Payroll account to the Florida Retirement System and the Internal Revenue Service. We are determined to resolve these issues and reconcile the Payroll bank account.

Finding No. 2: Electronic Funds Transfers

Recommendation: The Board should enhance its procedures to ensure bank agreements contain required signatures of employees designated to make EFT's, and appropriate separation of duties of initiating and authorizing EFT's.

Response: The district has a policy requiring an initiator and an approver on each EFT transaction. The bank account is checked on a daily basis and all EFT's are traced back to the authorizing paperwork.

Currently, the Capital City Bank software is undergoing an upgrade which may allow for separate approvers and initiators online. If this becomes an option that is feasible for the district, we will update our procedures to include an online two approval requirement.

Finding No. 3: Restricted Capital Outlay Resources

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are expended only for authorized purposes.

Response: The District has procedures in place to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. In the event that exceptions occur, the District will correct those matters.

Finding No. 4: Facilities Management

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative significant construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance department to identify efficiency or cost-effectiveness outcomes for department personnel.

Response:

The District has disbanded their long range planning committee due to the uncertainty of future funding. If in the future, adequate construction funds are restored to the District, a new long range planning committee

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

may be established. The District will develop written policies and procedures regarding the methods and techniques that work best within our District.

Finding No. 5: Adult General Education Classes

Recommendation: The District should determine the extent of adult general education hours misreported and contact the FDOE for proper resolution.

Response: The District will review the adult education reports with support from NEFEC and determine and delineate the reporting hour errors. DOE will be contacted about the errors and asked about the resolution process. In the future, this will not affect our District, as adult general education has been turned over to the State College.

Finding No. 6: Compensation and Salary Schedules

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.

Response: In the future, the district will continue to work collaboratively with the Putnam Federation of Teachers United to develop a Compensation and Salary Schedule that will meet the requirements of Section 1012.22(1)(c)4.b, Florida Statutes. A specific plan will be developed in order to document how instructional personnel will qualify for differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b, Florida Statutes. Additionally, the District will post on the District's web site all sites that would qualify instructional employees for additional compensation under the Instructional Contract Differentiated Pay Plan once this distinction is determined.

Finding No. 7: Contractual Services

Recommendation: District procedures should ensure that written agreements for contracted services describe the nature and timing of deliverables, and enhance its monitoring procedures to ensure that vendor invoices are completed and in accordance with the contract. For the accelerated math program, the District should recover the \$950 overpayment for consultant services.

Response: The District will ensure that all contracts that are entered into have clearly identified deliverables. The stated deliverables will trigger payment upon contractor submission of an invoice. Deliverable will be reviewed by appropriate district staff for quality and compliance. The staff member's signature on the invoice will indicate that the deliverable has been received and reviewed and that the invoice is ready to be processed for payment.

Items to Note: The SRO's do complete and turn in their daily activity logs to their Sheriff's Office supervisor. They also check on duty via communications/dispatch as a law enforcement officer with the procedures outlined by their Sheriff's Office policies. A request will be made to the SRO supervisor to include the time on and off duty on the daily activity log. The Director of School Safety and Security will request that the supervisor of the Sheriff's Office SRO Unit begin forwarding the daily activity logs for district review.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Accelerated Math Contract: The contract did not require deliverables specifically; however, since consultant was tasked with setting up the accelerated math system, including notifying schools of procedures, enrolling students, and helping schools implement and accelerated math was successfully implemented, the consultant did complete the task. The District will seek restitution for the overpayment.

Contracts for Grant Writing and Evaluation: The consultant did provide deliverables in the form of formative and summative reports, but these were not directly stated as deliverables for payment. The consultant billed and was paid based on an hourly rate.

Finding No. 8: Compensation for Additional Work

Recommendation: The Board should adopt written policies and procedures for additional compensation to ensure such compensation is necessary, reasonable, timely approved, and supported by adequate documentation. The District should also recover the \$60.16 overpayment to the employee for analyzing student data.

Response: The Putnam County School Board will adopt written policies and procedures for additional compensation to ensure such compensation is necessary, reasonable, timely approved, and supported by adequate documentation. Employees attending preapproved professional development sessions will receive a \$100/day stipend plus benefits upon completing and signing the District Sign in sheet documenting morning and afternoon attendance. Employees who are preapproved for performing a task which requires the level of skill of their normal work assignment, will receive their regular hourly rate of compensation plus benefits upon receipt of timesheets signed by employee and supervisor (example: teaching a class in summer for a teacher). Employees who are preapproved for performing a task which does not require the level of skill of their normal work assignment, will receive 25.00/hr plus benefits upon receipt of timesheets signed by employee and supervisor (example: tutoring students after school).

The District will seek restitution for the overpayment.

Finding No. 9: Purchasing Cards

Recommendation: The District should enhance controls over purchasing cards to ensure that the reasonableness of purchasing card credit limits is documented to justify the basis for the limits and purchasing card use is in accordance with established purchasing card procedures.

Response: The Accounts Payable clerk did not initiate 3.3 million in purchases. The district, through the normal PO process, initiated those purchases; the AP clerk contacted the vendors to see if they would accept the purchasing card for payment instead of a paper check, and processed those payments that way instead of via check. Each individual purchase was authorized by the appropriate personnel, and the monthly P Card statement showing all the payments was reviewed and signed by the Superintendent.

The District is considering other purchasing card providers and will revise its agreements and procedures to ensure purchasing card credit limits are reasonable and in accordance with established purchasing card procedures.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 10: Support Services Appreciation Fund

Recommendation: The District should enhance its procedures to ensure that expenditures are only for authorized public purposes.

Response: The District has closed the Support Services Appreciation Fund and moved the funds to the general operating funds unreserved fund balance. This will ensure that expenditures are only for authorized public purposes.

Finding No. 11: Charter School Application Evaluations

Recommendation: The District should enhance its controls to ensure documented evaluations of charter school applicants using the FDOE-established criteria. Such documented evaluations should include detailed assessments of the charter school's educational, organizational, and business plans as required by SBE rules.

Response: Board members did use criteria established by FDOE for evaluating charter school applications during the 2011-2012 school year, as evidenced by DVD recordings of the board meetings in minute files; however, hard copies from each member's evaluations were not in the file. Therefore, in the future, when charter school applications are presented to the District, hard copies from each board member documenting evaluations completed according to established guidelines, will be included in the official school board minute files.

Finding No. 12: Information Technology – Access Privileges

Recommendation: The District should periodically review the appropriateness of access privileges, including administrator privileges within the network and application and remove or adjust any inappropriate or unnecessary access detected. The District should also develop written policies and procedures for the routine monitoring of financial application security logs to provide increased assurance of timely detecting unauthorized system activity, should it occur.

Response: The Putnam County School district will review access privileges for internally and externally used systems. These systems will include but are not limited to the domain access privileges and Skyward Business, Human Resource and Finance access privileges. The Putnam County School District will institute written procedures in the IT Procedures Manual for the routine monitoring of all security logs for the purpose of providing increased assurance of timely detection of unauthorized system activity, should it arise. Bi-annual reports will be run for the purpose of review and analysis to ensure the appropriateness of access privileges within the network. Adjustments will be made as applicable.

Finding No. 13: Information Technology – Access Control Records

Recommendation: The District should ensure that access control records are retained as required by the *General Records Schedule*.

Response: The Putnam County School District will ensure that all employees' historical electronic access control records, including network accounts, access profiles, and permission records will be retained for one full year upon employee termination/resignation from employment with the Putnam County School District as required by the General Records Schedule. Records will not be purged from database until the maturity date of inactivation period has been met.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 14: Information Technology – Timely Deactivation of Access Privileges

Recommendation: The District should enhance its controls to ensure that the access privileges of reassigned or former employees are timely deactivated.

Response: The Putnam County School District will ensure that access privileges of reassigned or former employees are deactivated in a timely fashion. The PCSD IT Procedures manual outlines a notification system between the Human Resources Department and the Media & Information Services Department to ensure that this is done promptly upon change in employment status.

Finding No. 15: Information Technology – Security Controls – User Authentication and Data Loss Prevention

Recommendation: The District should improve its security controls related to user authentication and data loss prevention to ensure continued confidentiality, integrity, and availability of District data and IT resources.

Response: The District has established a Data Loss Prevention Plan, which due to confidentiality matters, will not be included here. The District has reviewed and revised its security controls related to user authentication and data loss to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Federal Awards Finding No. 1

Recommendation: The District should enhance its procedures to ensure that Federal program expenditures are only for allowable program purposes, and charges are properly approved, documented, and supported. In addition, the District should document to the grantor (FDOE) the allowability of questioned costs of \$164,682 for ITQ, \$20,231 for RTTT, \$8,372 for Title I, and \$6,375 for Twenty First Century programs. The District should also document to the grantor (United States Department of Education) the allowability of questioned costs of \$60,007 for TIF and \$2,288 for FIE programs.

Response: The District has validated the reception of professional development services by aligning the number of contracted days of service with the number of actual delivered services. The District will document the allowability of training days identified for these contracts to the grantor (FDOE).

In the future, the district will not enter into prepaid contracts without a considerable discount due to the added burden of ensuring reception of services which does not occur when we follow our regular invoicing procedures. To ensure that records validate the reception of professional development services, providers and the site based administrators will be required to sign a form documenting the service with dates and times at the conclusion of the day. Both signatures will be required to document receipt of services. A copy will be kept in the audit box and the original will be sent to District Office.

Also, in the future, the district will ensure that all contracts entered into have clearly identified deliverables. The stated deliverables will trigger payment upon contractor submission of an invoice. Deliverables will be reviewed by appropriate district staff for quality and compliance. The staff member's signature on the invoice will indicate that the deliverable has been received and reviewed and that the invoice is ready to be processed for payment. On occasions when it is necessary to hire a provider of services at an hourly rate,

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

clearly stated expectations of job scope will be delineated with hourly rates that will be invoiced describing specified service provided and paid at the approved rate.

Going forward, the district will provide janitorial and any other appropriate services that are provided to district programs to the Title I Offices.

Title I Tutoring- Timesheets will be signed by the tutor who will submit to his/her direct supervisor. The supervisor will check, sign validating the hours of service and submit to Federal Programs. The bookkeeper will check the hours and compute the payment. The director will review and sign before sending to finance for payment.

Federal Awards Finding No. 2

Recommendation: The District should document to the grantor (FDOE) its compliance with Federal maintenance of effort requirements or restore \$83,226 to the Special Education programs.

Response: The District shall address this matter with FDOE, as we believe an allowance should be made due to the reduction in the District's required contribution rate to the Florida Retirement System from 10.777 percent of employee salaries to 4.91 percent. This resulted in a decrease in required benefits paid of over \$500,000.