

AUDITOR GENERAL
DAVID W. MARTIN, CPA

FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2007

Franklin County District School Board members and the Superintendent of Schools who served during the 2006-07 fiscal year are shown in the following tabulation:

	<i>District No.</i>
<i>Denise D. Butler</i>	<i>1</i>
<i>David C. Hinton, Vice-Chair to 11-20-06</i>	<i>2</i>
<i>Teresa Ann Martin, Vice-Chair from 11-21-06</i>	<i>3</i>
<i>Jimmy Gander, Chair</i>	<i>4</i>
<i>John O. Richards, Jr.</i>	<i>5</i>

Jo Ann B. Gander, Superintendent

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Franklin County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2007, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note internal control and compliance findings that are summarized below.

Finding No. 1: Financial Reporting

Enhancements in procedures should be made to ensure the accuracy and completeness of the District's annual financial report.

Finding No. 2: Debt Administration – Promissory Notes

The District should take necessary action to ensure that it competitively selects and documents the selection of financing sources and of independent financial advisors relative to any future financing arrangements.

Finding No. 3: School Internal Funds

Appropriate efforts should be made to correct deficiencies in controls over the school internal funds.

Finding No. 4: Board Minutes

Instances were noted in which Board minutes were not timely reviewed, corrected if necessary, and approved at the next regular meeting or intervening special meeting.

Finding No. 5: Construction Management Services – Contract Administration

District procedures for monitoring construction management agreements did not always include reviewing subcontractor invoices for the payment applications.

Finding No. 6: Information Technology – Security Controls

Improvements were needed in the District's information technology security controls. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising the District's information systems data and resources.

Finding No. 7: Fingerprinting and Background Checks

Deficiencies were noted in the District's records and documentation regarding required fingerprint screening and background checks of contractors.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, and Title I programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note internal control and compliance findings that are summarized below.

Federal Awards Finding No. 1: Eligibility/Special Tests and Provisions

The District's verification process of free and reduced meal applications was not limited to error-prone applications, contrary to Federal law. Also, the District did not properly change the meal status of certain students as part of the process.

Federal Awards Finding No. 2: Eligibility/Matching, Level of Effort, Earmarking

District procedures could be enhanced to ensure that Title I schoolwide program resources are properly allocated to schools as required. Also, outreach procedures could be improved to ensure supplemental educational services are provided to eligible students on a timely basis.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, 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 law, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed in our report No. 2007-132.

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, 2007. We obtained an understanding of internal control and assessed control risk 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, administrative 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*.

This audit was coordinated by Stanley B. Dillard, CPA, and supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, via e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site <http://www.myflorida.com/audgen/>; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDINGS AND RECOMMENDATIONS

Material Weakness

Finding No. 1: Financial Reporting

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is by preparing its annual financial report. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users such as the School Board, Superintendent, District management, and other interested parties can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Our review of the District's 2006-07 fiscal year annual financial report, as presented for audit, disclosed certain reporting errors resulting from weaknesses in control procedures, examples of which are discussed below.

- The District did not report a liability for the retainage payable on construction contracts and the related expenditures totaling \$1,550,407.70 in the Capital Projects – PECO Fund. The unreported amounts occurred mainly because District procedures did not identify all current liabilities at fiscal year-end.
- Debt service interest expenditures were understated in the Other Governmental Funds and overstated in the Capital Projects – Local Capital Improvement fund by \$363,305.89 because the District did not properly identify and report the debt service payments in the correct fund during the fiscal year.
- The District is responsible for reporting a liability for the amount of the Public Education Capital Outlay Special Facilities allocation expected to be repaid by other District capital outlay sources which are committed under Section 1013.64, Florida Statutes. However, because the District's estimate was incorrect, the District erroneously understated this liability by approximately \$3.2 million on the government-wide financial statements.
- Generally Accepted Accounting Principles require that the basic financial statements include notes to financial statements to describe and explain financial statement presentations, accounting policies used, and to make other required disclosures relating to the District's financial activity. However, we noted deficiencies in the notes to financial statements, prior to audit adjustments. For example, the District's note disclosures excluded a description of the Franklin School Board Leasing Corporation, a blended component unit, and included errors in the description of the District's major governmental funds. Further, the District inadvertently included the impact of the 2007 fiscal year payment in the note describing its promissory notes liability, resulting in improper presentation of future minimum principal and interest payments, and failed to disclose construction contract commitments, totaling approximately \$21.8 million, for the new K-12 Consolidated Schools.

Our review disclosed that District staff had not established effective procedures to ensure the accuracy of financial statements. We extended our audit procedures to determine the adjustments necessary for the fair presentation of the District's basic financial statements, and the adjustments were accepted by the District.

Recommendation: To facilitate necessary financial reporting, the District should establish procedures to ensure the accuracy and completeness of the financial statements.

Significant Deficiencies

Finding No. 2: Debt Administration – Promissory Notes

During the 2006-07 fiscal year, the District entered into a financing arrangement, which was characterized as a lease-purchase agreement, with the Franklin School Board Leasing Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of \$16,350,000. The financing was accomplished through the issuance of two promissory notes, Note 2006 and Note 2007, to be repaid from the proceeds of rents paid by the District. Our review disclosed the following deficiencies:

- The financing was obtained through direct negotiations with a local bank rather than pursuant to a request for competitive bids or proposals. The District indicated that it could not complete the competitive bidding process to obtain financing for the facilities before the construction manager bids expired in December 2006. Therefore, the District considered the financing an emergency situation pursuant to Section 287.057(5)(a), Florida Statutes, and obtained the financing without competitively bidding. However, Section 287.057, Florida Statutes, does not specifically apply to school boards, but agencies defined in Section 287.012(1), Florida Statutes. To obtain assurance that financing is obtained at the least cost, a district school board has several options. These include requesting bids or proposals from prospective creditors and comparing expected costs of the financing method under consideration with the costs associated with similar financing arrangements in the market place. Absent the competitive selection of a financing source, the Board has limited assurance that the lowest cost financing was obtained.
- While the District used the lending bank's attorney as bond counsel, the District did not engage an independent financial advisor to assist in the structuring and issuing of the promissory notes. The Government Finance Officers Association recommends that a financial advisor, independent of the underwriter, be used in structuring and pricing of a debt issue. The use of an independent financial advisor enhances public confidence in the debt issuance process by reducing the opportunity for potential conflicts of interest. Without the services of an independent financial advisor and bond counsel, the Board further limited its assurance that the lowest cost financing was obtained.

Recommendation: In the future, the District should take necessary action to ensure that it competitively selects and documents, of record, that such financings are obtained at the lowest cost and that the financial advisor is independently selected.

Finding No. 3: School Internal Funds

District procedures to account for the school internal funds continued to need improvement, as also noted in a number of our previous reports. The Board obtained an audit for the 2006-07 fiscal year of the school and activity funds, commonly called the school internal funds, which disclosed certain weaknesses in the internal controls. For example, Carrabelle High School did not maintain adequate account records of cash receipts, cash disbursements, and balances by class, club, and department during the year, and bank reconciliations were not performed. Subsequent to year-end, records were created to accumulate activity for the internal accounts. The deficiencies were collectively considered by the internal fund auditors to be material weaknesses in internal control. The absence of adequate controls over school internal fund cash increases the risk that errors and misappropriations may occur and not be detected in a timely manner.

Recommendation: The District should take appropriate action to correct the deficiencies in controls over the school internal funds.

Additional Matters

Finding No. 4: Board Minutes

Section 1001.42(1), Florida Statutes, provides that the Board shall require minutes and records to be kept as necessary to set forth clearly all actions and proceedings of the Board. This statute further provides that the typed minutes of each Board meeting shall be reviewed, corrected if necessary, and approved at the next regular meeting, or at an intervening special meeting if the Board desires. Additionally, Section 286.011(2), Florida Statutes, requires that all minutes of the Board be promptly recorded and open to public inspection.

Our review disclosed that the minutes of 6 of the 12 regular Board meetings and 10 of the 14 special Board meetings held during the 2006-07 fiscal year, were not approved at the next regular meeting or intervening special meeting of the Board. The minutes for these meetings were approved at subsequent regular meetings that were 49 to 306 days, or an average of 84 days, after the date of the next regular meeting. The lack of timely-approved official Board minutes may limit the public's access to information on Board actions.

Recommendation: The Board should take necessary action to ensure that its minutes are timely reviewed, corrected if necessary, and approved, in accordance with statutory requirements.

Finding No. 5: Construction Management Services – Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes district school boards to contract for the construction or renovation of facilities with a construction management entity (CME). The CME would be responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The statute further provides that the CME may be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District.

In March 2005, the District approved an agreement, containing a GMP, with a CME for the pre-construction phase of a new K-12 school. The GMP was amended, as the phases of construction progressed, to \$35,173,318.48 as of June 30, 2007. The District is responsible for construction project administration, including monitoring CME activities and reviewing documentation submitted by the CME in support of payment requests.

Our review disclosed that although the CME's payment applications were signed and approved for payment by District staff, some charges were not supported by subcontractors' detailed invoices. Subcontractor charges generally represent a large portion of work billed. For example, of the total \$1,758,984.82 requested on Payment Application No. 14, \$1,431,217.90 was for subcontractor charges from 13 subcontractors. Of these, we noted three subcontractors whose bills totaled \$470,870.24 for which there were no supporting detailed invoices.

Absent adequate preaudit of supporting invoices by appropriate staff, the District cannot ensure that payments are proper.

Recommendation: The District should establish monitoring procedures for CME agreements that include reviewing CME payment applications and adequacy of support.

Finding No. 6: Information Technology – Security Controls

Improvements were needed in the District's security controls protecting the District's information technology resources. Specific details of these improvements are not disclosed in this report to avoid the possibility of compromising District resources. However, appropriate District personnel have been notified of the needed improvements. Weaknesses in access controls could increase the risk that individuals could gain unauthorized access to the system without timely detection. A similar finding was noted in our report No. 2007-132.

Recommendation: The District should strengthen its access controls over information technology resources.

Finding No. 7: Fingerprinting and Background Checks

Section 1012.465, Florida Statutes, provides, in part, that contractual personnel who are permitted access to schools when students are present must undergo certain background checks and fingerprinting requirements, and if such personnel fail to meet the standards established by these requirements, the person shall be immediately suspended from working in that capacity until final resolution of any appeals. As part of our tests, we reviewed District screening procedures and records for ten vendors whose personnel were provided access to schools when students were present. Our review disclosed the following deficiencies:

- The District does not maintain a master record of background checks and fingerprint screenings performed since July 1, 2004, containing the date of screening of contractual personnel.
- For two vendors, the District could not provide a list of the personnel providing the services or document, of record, that the required background checks and fingerprints were obtained.
- For another vendor, the District relied on a written statement from another school district indicating that the required background checks and fingerprints had been performed; however, the Franklin County District School Board did not obtain a copy of the actual report to review the results and determine if backgrounds were suitable.

Absent required background checks and fingerprint screenings of contractual personnel that are permitted direct contact with students or access to schools when students are present, there is an increased risk of using contractors that have backgrounds that are inappropriate in a school environment.

Recommendation: The District should enhance procedures to ensure that the required background checks and fingerprint screenings are performed for contractual personnel, and maintain documentation of the required screenings.

PRIOR AUDIT FINDINGS

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in our report No. 2007-132.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Franklin County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in the Management Response Section of this report, beginning on page 58.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin County District School Board as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed on page 6. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Apalachicola Bay Charter School, Inc., reported as a discretely presented component unit. We also did not audit the financial statements of the school internal funds, which represent 15 percent of the assets and 38 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the District's discretely presented component unit and the school internal funds, is 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Franklin County District School Board as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Franklin County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative 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.

The Management's Discussion and Analysis (pages 9 through 15) and the Budgetary Comparison Schedule (shown as Exhibit I) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
February 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006-07 fiscal year are as follows:

- Net assets at June 30, 2007, total \$37,520,212.24 which represents an increase of \$17,014,867.13 (83 percent) from the previous year. The primary reasons for the significant increase in net assets were an increase in the local capital improvement tax levy proceeds due to rapidly rising taxable values and the receipt of Public Education Capital Outlay appropriations.
- During the current year, General Fund revenues and other financing sources were less than expenditures and other financing uses by \$327,403.19. This may be compared to last year's results in which General Fund revenues and other sources were less than expenditures by \$37,032.38. The 2006-07 fiscal year marks the second time in eight years in which the General Fund financial condition has failed to improve over the prior year.
- The continuing decline in the fund balance of the General Fund was caused, in part, by declining enrollment coupled with a 3.5 percent raise given in the current year. A contributing factor in the District's decline in student enrollment was the growth in enrollment of the local charter school.
- The District uses Federal funding to supplement State and local funding provided by the Florida Education Finance Program (FEFP). The Florida Department of Education calculates FEFP funding, in part, using student population.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements, management's discussion and analysis and the budgetary comparison schedule are included as required supplementary information.

Government-Wide Financial Statements

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

accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year.

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

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

The Franklin School Board Leasing Corporation (the Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

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

Fund Financial Statements

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2007, compared to net assets as of June 30, 2006:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-07	6-30-06
Current and Other Assets	\$ 35,732,165.78	\$ 17,419,365.07
Capital Assets	<u>34,402,434.04</u>	<u>12,376,551.18</u>
Total Assets	<u>70,134,599.82</u>	<u>29,795,916.25</u>
Long-Term Liabilities	28,515,287.91	9,170,727.57
Other Liabilities	<u>4,099,099.67</u>	<u>119,843.57</u>
Total Liabilities	<u>32,614,387.58</u>	<u>9,290,571.14</u>
Net Assets:		
Invested in Capital Assets -		
Net of Debt	27,626,478.94	11,834,410.24
Restricted	10,117,128.69	8,489,023.53
Unrestricted (Deficit)	<u>(223,395.39)</u>	<u>181,911.34</u>
Total Net Assets	<u>\$ 37,520,212.24</u>	<u>\$ 20,505,345.11</u>

The District's net assets reflects its investment in capital assets (e.g., land, buildings, furniture 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 negative unrestricted net assets (\$223,395.39) are a result, in part, of recording the compensated absences payable of \$702,335.37.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2007, and June 30, 2006, are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-07	6-30-06
Program Revenues:		
Charges for Services	\$ 184,361.74	\$ 196,962.95
Operating Grants and Contributions	597,730.36	592,036.90
Capital Grants and Contributions	10,627,802.39	613,264.70
General Revenues:		
Property Taxes, Levied for Operational Purposes	7,704,679.20	7,202,472.70
Property Taxes, Levied for Capital Projects	7,763,525.37	6,438,574.15
Grants and Contributions Not Restricted to Specific Programs	4,291,639.98	4,548,084.30
Unrestricted Investment Earnings	1,096,682.83	336,888.66
Miscellaneous	192,531.62	239,662.16
Total Revenues	32,458,953.49	20,167,946.52
Functions/Program Expenses:		
Instruction	8,688,113.62	7,851,354.69
Pupil Personnel Services	245,597.90	424,780.52
Instructional Media Services	236,948.69	169,084.75
Instruction and Curriculum Development Services	25,310.95	19,786.71
Instructional Staff Training Services	88,815.59	109,458.74
Instruction Related Technology	47,911.04	
Board of Education	281,945.84	298,142.39
General Administration	305,201.93	322,150.06
School Administration	528,700.77	472,205.10
Facilities Acquisition and Construction	668,204.49	837,442.46
Fiscal Services	326,619.70	328,598.03
Food Services	677,516.94	614,772.81
Central Services	335,267.24	251,406.08
Pupil Transportation Services	783,419.80	729,845.09
Operation of Plant	946,244.25	926,635.74
Maintenance of Plant	241,941.77	310,645.33
Administrative Technology Services	37,210.90	
Community Services		5,000.00
Interest on Long-Term Debt	485,762.01	37,299.61
Unallocated Depreciation Expenses	473,618.47	488,698.00
Loss on Disposal of Capital Assets	19,734.46	37,682.75
Total Functions/Program Expenses	15,444,086.36	14,234,988.86
Increase in Net Assets	\$ 17,014,867.13	\$ 5,932,957.66

Governmental activities increased the District's net assets by \$17,014,867.13 or 83 percent. State revenues increased by \$10,361,999.47, or 355 percent, due primarily to the receipt of Special Public Education Capital Outlay appropriations for a new K-12 consolidated school project. The largest revenue source is local property taxes (48 percent) which increased by \$1,827,157.72, or 13 percent. Total expenses increased by \$1,209,097.50, or 8 percent.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Unreserved Fund Balance

- **General Fund.** The unreserved fund balance of the General Fund, which had increased steadily over the six years prior to last year, experienced declines the previous and current year. The District will refocus on its goal of maintaining an upward trend through improved budgeting procedures and accountability, and the more efficient use of revenue from State and Federal projects. The unreserved fund balance, as a percent of revenue, for the past eight years is shown below.

<u>Fiscal Year</u>	<u>Unreserved Fund Balance</u>	<u>Percent of Revenue</u>
2006-07	\$ 452,042.84	4.23
2005-06	764,825.20	7.70
2004-05	803,594.88	8.82
2003-04	787,877.38	9.25
2002-03	753,360.73	9.22
2001-02	701,380.29	8.53
2000-01	553,673.78	6.68
1999-00	200,402.36	2.47

- **Capital Projects – Public Education Capital Outlay Fund.** The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$4,686,997.44, earmarked for new construction and renovation and remodeling capital outlay projects. The majority of this represents funding from the Special Public Education Capital Outlay legislative appropriation for a new K-12 consolidated school.
- **Capital Projects – Local Capital Improvement Fund.** The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$9,539,808.34, generated by the local capital improvement tax levy for educational capital outlay needs, including new construction and renovation and remodeling projects.
- **Capital Projects – Other Fund.** The Capital Projects – Other Fund has a total fund balance of \$16,679,084.26, generated mainly from Promissory Notes proceeds for educational capital outlay needs and new construction.

GENERAL FUND BUDGETARY HIGHLIGHTS

There are no significant budget variances in the General Fund.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$34,402,434.04 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; construction in progress, 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

During the fiscal year, the District entered into a financing arrangement which was characterized as a lease-purchase agreement with the Franklin School Board Leasing Corporation whereby the District secured financing of educational facilities in the amount of \$16,350,000 through the issuance of Promissory Notes at an annual interest rate of 4.58 percent. The purpose of this debt was for partial funding of construction of the District's new K-12 school. Interest only will be paid at June 30 2007, and June 30, 2008. Interest and principal totaling \$1,537,740.05 will be paid every June 30 thereafter until paid in full on June 30, 2023. The District also has a Special Public Education Capital Outlay Advances Payable of \$11,185,669.83. The District's only other long-term debt is an installment-purchase agreement involving total assets of \$1,421,372.23. It involves the

financing of an energy retrofit project that the District undertook several years ago. At June 30, 2007, the installment debt outstanding totals \$277,282.71.

Additional information on the District's long-term debt can be found in Notes 5 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

- ***Student Enrollment and Funding.*** Revenues from State sources comprise 41 percent of the total available resources from current operations of the District. This is up from 14 percent for the previous year. Revenues from State sources for current operations are primarily from a Special Public Education Capital Outlay appropriation and 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 District has experienced a significant decline in FTE used for funding purposes over the past several years. It is anticipated that this trend will continue.
- ***Capital Outlay Funding.*** In addition to the operating funds discussed above, the District annually receives funding for capital outlay projects from State and local revenue. State sources include allocations for Special Public Education Capital Outlay and the lottery-funded Classrooms First moneys. During the current year, the District received a Special Public Education Capital Outlay appropriation of \$13,150,000 for the construction of a new K-12 consolidated school. A similar appropriation was received in the prior year. As a condition for receiving the Special Public Education Capital Outlay appropriations, other capital outlay funds, including 1.5 mill of the District's tax levy, are obligated as the District's share of the cost of construction. For a three year commitment, the Special Public Education Capital Outlay appropriation will be reduced by the amount of funding pledged by the District.
- ***Charter School.*** The District's charter school continued to enjoy full enrollment in all grade levels kindergarten through eighth grade. The school is reported as a component unit in the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Franklin County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Franklin County District School Board, 155 Avenue E, Apalachicola, FL 32320.

EXHIBIT - A
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash	\$ 280,420.64	\$ 471,845.00
Investments	28,033,769.05	
Due from Other Funds		2,398.00
Due from Other Agencies	7,394,592.17	
Inventories	23,383.92	
Loan Costs, Net		2,086.00
Capital Assets:		
Land	4,779,033.00	140,000.00
Land Improvements - Nondepreciable		24,569.00
Construction in Progress	23,835,010.52	
Improvements Other Than Buildings, Net	225,919.94	139,773.00
Buildings and Fixed Equipment, Net	3,907,466.84	183,451.00
Furniture, Fixtures, and Equipment, Net	389,840.44	193,274.00
Motor Vehicles, Net	931,362.11	29,708.00
Computer Software, Net	333,801.19	32,195.00
	\$ 70,134,599.82	\$ 1,219,299.00
LIABILITIES		
Salaries and Benefits Payable	\$	\$ 57,738.00
Payroll Deductions and Withholdings	53,239.65	
Accounts Payable	433,046.89	15,870.00
Construction Contracts Payable	1,758,984.82	
Construction Contracts Retainage Payable	1,550,407.70	
Due to Other Agencies	12,373.94	
Deposits Payable	18,859.67	
Deferred Revenue	272,187.00	
Long-Term Liabilities:		
Portion Due Within One Year:		
Installment-Purchase Payable	277,282.71	
Special Public Education Capital Outlay Advance Payable	6,081,900.33	
Mortgage Note Payable		38,319.00
Compensated Absences Payable	90,000.00	9,440.00
Portion Due After One Year:		
Special Public Education Capital Outlay Advance Payable	5,103,769.50	
Notes Payable	16,350,000.00	
Mortgage Note Payable		182,210.00
Compensated Absences Payable	612,335.37	9,440.00
	32,614,387.58	313,017.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	27,626,478.94	524,527.00
Restricted for:		
State Categorical Programs	45,160.98	
Capital Projects	10,071,967.71	
Other Purposes		7,313.00
Unrestricted	(223,395.39)	374,442.00
	37,520,212.24	906,282.00
Total Net Assets	\$ 70,134,599.82	\$ 1,219,299.00
TOTAL LIABILITIES AND NET ASSETS	\$ 70,134,599.82	\$ 1,219,299.00

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

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EXHIBIT - B
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 8,688,113.62	\$ 1,482.00	\$	\$
Pupil Personnel Services	245,597.90			
Instructional Media Services	236,948.69			
Instruction and Curriculum Development Services	25,310.95			
Instructional Staff Training Services	88,815.59			
Instruction Related Technology	47,911.04			
Board of Education	281,945.84			
General Administration	305,201.93			
School Administration	528,700.77			
Facilities Acquisition and Construction	668,204.49			10,424,416.39
Fiscal Services	326,619.70			
Food Services	677,516.94	178,219.69	437,371.36	
Central Services	335,267.24			
Pupil Transportation Services	783,419.80	4,660.05	160,359.00	
Operation of Plant	946,244.25			
Maintenance of Plant	241,941.77			203,386.00
Administrative Technology Services	37,210.90			
Loss on Disposal of Capital Assets	19,734.46			
Interest on Long-Term Debt	485,762.01			
Unallocated Depreciation Expense	473,618.47			
Total Primary Government	\$ 15,444,086.36	\$ 184,361.74	\$ 597,730.36	\$ 10,627,802.39
Component Unit				
Apalachicola Bay Charter School, Inc.	\$ 1,713,662.00	\$ 0.00	\$ 103,844.00	\$ 174,807.00
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 - July 1, 2006				
Net Assets - June 30, 2007				

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

EXHIBIT - B

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Unit</u>
<u>Activities</u>	
\$ (8,686,631.62)	\$
(245,597.90)	
(236,948.69)	
(25,310.95)	
(88,815.59)	
(47,911.04)	
(281,945.84)	
(305,201.93)	
(528,700.77)	
9,756,211.90	
(326,619.70)	
(61,925.89)	
(335,267.24)	
(618,400.75)	
(946,244.25)	
(38,555.77)	
(37,210.90)	
(19,734.46)	
(485,762.01)	
(473,618.47)	
<u>(4,034,191.87)</u>	
	<u>(1,435,011.00)</u>
7,704,679.20	
7,763,525.37	
4,291,639.98	1,655,925.00
1,096,682.83	2,751.00
192,531.62	
<u>21,049,059.00</u>	<u>1,658,676.00</u>
17,014,867.13	223,665.00
<u>20,505,345.11</u>	<u>682,617.00</u>
<u>\$ 37,520,212.24</u>	<u>\$ 906,282.00</u>

**EXHIBIT - C
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007**

	<u>General Fund</u>	<u>Capital Projects - Public Education Capital Outlay Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
ASSETS			
Cash	\$ 182,364.14	\$	\$ 58,244.91
Investments	706,998.24	1,595,825.89	9,472,674.89
Due from Other Funds	68,291.41		8,888.54
Due from Other Agencies	38,310.17	7,078,935.38	
Inventories			
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 995,963.96</u>	<u>\$ 8,674,761.27</u>	<u>\$ 9,539,808.34</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 53,239.65	\$	\$
Accounts Payable	13,303.88	406,184.31	
Construction Contracts Payable		1,758,984.82	
Construction Contracts Retainage Payable		1,550,407.70	
Due to Other Funds	400,000.00		
Due to Other Agencies	12,373.94		
Deposits Payable	18,859.67		
Deferred Revenue		272,187.00	
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>497,777.14</u>	<u>3,987,763.83</u>	<hr/>
Fund Balances:			
Reserved for State Categorical Programs	45,160.98		
Reserved for Encumbrances	983.00	4,686,997.44	9,486,867.69
Unreserved, Reported in:			
General Fund	452,042.84		
Special Revenue Fund			
Debt Service Funds			
Capital Projects Funds			52,940.65
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>498,186.82</u>	<u>4,686,997.44</u>	<u>9,539,808.34</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 995,963.96</u>	<u>\$ 8,674,761.27</u>	<u>\$ 9,539,808.34</u>

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

EXHIBIT - C

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
<hr/>	<hr/>	<hr/>
\$	\$	\$
16,054,084.26	39,811.59	280,420.64
400,000.00	204,185.77	28,033,769.05
225,000.00	52,346.62	477,179.95
	23,383.92	7,394,592.17
		23,383.92
<hr/>	<hr/>	<hr/>
\$ 16,679,084.26	\$ 319,727.90	\$ 36,209,345.73
<hr/>	<hr/>	<hr/>
\$	\$	\$
	13,558.70	53,239.65
		433,046.89
		1,758,984.82
		1,550,407.70
	77,179.95	477,179.95
		12,373.94
		18,859.67
		272,187.00
<hr/>	<hr/>	<hr/>
	90,738.65	4,576,279.62
<hr/>	<hr/>	<hr/>
7,939,922.67		45,160.98
		22,114,770.80
		452,042.84
	24,371.43	24,371.43
	1,542.71	1,542.71
8,739,161.59	203,075.11	8,995,177.35
<hr/>	<hr/>	<hr/>
16,679,084.26	228,989.25	31,633,066.11
<hr/>	<hr/>	<hr/>
\$ 16,679,084.26	\$ 319,727.90	\$ 36,209,345.73
<hr/>	<hr/>	<hr/>

**EXHIBIT - D
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total Fund Balances - Governmental Funds	\$	31,633,066.11
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.		34,402,434.04
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Installment-Purchase Payable	\$	277,282.71
Special Public Education Capital Outlay Advance Payable		11,185,669.83
Notes Payable		16,350,000.00
Compensated Absences Payable		702,335.37
		(28,515,287.91)
Total Net Assets - Governmental Activities	\$	<u>37,520,212.24</u>

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

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EXHIBIT - E
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	<u>General Fund</u>	<u>Capital Projects - Public Education Capital Outlay Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
Revenues			
Intergovernmental:			
Federal Through State	\$ 176,829.62	\$	\$
State	2,332,909.76	10,278,804.60	
Local	8,164,896.04	107,578.75	8,124,065.96
	<u>10,674,635.42</u>	<u>10,386,383.35</u>	<u>8,124,065.96</u>
Total Revenues			
Expenditures			
Current - Education:			
Instruction	7,304,013.53		
Pupil Personnel Services	243,366.66		
Instructional Media Services	236,948.69		
Instruction and Curriculum Development Services	541.34		
Instructional Staff Training Services	8,191.94		
Instruction Related Technology	47,911.04		
Board of Education	281,945.84		
General Administration	292,100.25		
School Administration	528,700.77		
Facilities Acquisition and Construction	1,175.00	294,859.32	72,170.17
Fiscal Services	326,619.70		
Food Services	2,681.13		
Central Services	263,241.57		
Pupil Transportation Services	607,479.23		
Operation of Plant	946,244.25		
Maintenance of Plant	241,941.77		
Administrative Technology Services	37,210.90		
Fixed Capital Outlay:			
Facilities Acquisition and Construction		16,430,287.71	6,093,500.40
Other Capital Outlay	5,725.00		112,761.93
Debt Service:			
Principal			264,858.23
Interest and Fiscal Charges			25,431.83
	<u>11,376,038.61</u>	<u>16,725,147.03</u>	<u>6,568,722.56</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over Expenditures	<u>(701,403.19)</u>	<u>(6,338,763.68)</u>	<u>1,555,343.40</u>
Other Financing Sources (Uses)			
Transfers In	414,000.00		
Proceeds of Notes			
Proceeds of Special Facilities Construction Advance		3,200,559.63	
Transfers Out	(40,000.00)		(465,305.89)
	<u>374,000.00</u>	<u>3,200,559.63</u>	<u>(465,305.89)</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(327,403.19)	(3,138,204.05)	1,090,037.51
Fund Balances, July 1, 2006	825,590.01	7,825,201.49	8,449,770.83
	<u>825,590.01</u>	<u>7,825,201.49</u>	<u>8,449,770.83</u>
Fund Balances, June 30, 2007	<u>\$ 498,186.82</u>	<u>\$ 4,686,997.44</u>	<u>\$ 9,539,808.34</u>

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

EXHIBIT - E

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>	<u> </u>
\$	\$	\$
300,000.00	1,972,090.89	2,148,920.51
424,084.26	367,660.78	13,279,375.14
<u> </u>	<u> </u>	<u> </u>
724,084.26	186,521.03	17,007,146.04
<u> </u>	<u> </u>	<u> </u>
	2,526,272.70	32,435,441.69
	1,325,241.15	8,629,254.68
	2,231.24	245,597.90
		236,948.69
	24,769.61	25,310.95
	80,623.65	88,815.59
		47,911.04
		281,945.84
	13,101.68	305,201.93
		528,700.77
300,000.00		668,204.49
		326,619.70
	674,835.81	677,516.94
	72,025.67	335,267.24
	17,865.97	625,345.20
		946,244.25
		241,941.77
		37,210.90
		22,523,788.11
	11,523.55	130,010.48
		264,858.23
<u>95,000.00</u>	<u>365,330.18</u>	<u>485,762.01</u>
<u>395,000.00</u>	<u>2,587,548.51</u>	<u>37,652,456.71</u>
<u>329,084.26</u>	<u>(61,275.81)</u>	<u>(5,217,015.02)</u>
16,350,000.00	405,305.89	819,305.89
		16,350,000.00
		3,200,559.63
<u> </u>	<u>(314,000.00)</u>	<u>(819,305.89)</u>
<u>16,350,000.00</u>	<u>91,305.89</u>	<u>19,550,559.63</u>
16,679,084.26	30,030.08	14,333,544.61
<u> </u>	<u>198,959.17</u>	<u>17,299,521.50</u>
<u>\$ 16,679,084.26</u>	<u>\$ 228,989.25</u>	<u>\$ 31,633,066.11</u>

EXHIBIT - F
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Net Change in Fund Balances - Governmental Funds \$ 14,333,544.61

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 capital outlays in excess of depreciation expense in the current period. 22,045,617.32

The loss on disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (19,734.46)

Special Public Education Capital Outlay Advances and proceeds from Promissory Notes provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. (19,550,559.63)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (58,858.94)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 264,858.23

Change in Net Assets - Governmental Activities \$ 17,014,867.13

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

EXHIBIT - G
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>55,038.00</u>
LIABILITIES	
Internal Accounts Payable	\$ <u>55,038.00</u>

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

EXHIBIT – H
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

Criteria for determining if other entities are potential component units which 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 District School Board is financially accountable and other organizations for which the nature and significance of their relationship with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

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

- **Blended Component Unit:** The Franklin School Board Leasing Corporation (Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the Franklin County District School Board and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Unit.** The component unit columns in the basic financial statements, Exhibits A and B, include the financial data of the Apalachicola Bay Charter School, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School contract is for a period of five years commencing July 1, 2001, and may be renewed by the mutual agreement of both parties. At the end of the term of a charter, the District may choose not to renew the charter under grounds specified in the charter, in which case the District is required to notify the Charter School in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a school is dissolved or terminated, any unencumbered funds and all school property purchased with public funds shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The Charter School is considered a component unit of the District.

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

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the School District

EXHIBIT - H (Continued)
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

as a whole. These statements include the nonfiduciary financial activity of the primary government and its component units.

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Public Education Capital Outlay Fund - to account for the financial resources allocated by the Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on installment-purchases.
- Capital Projects – Other Fund – to account for financial resources set aside by the Board, a historical grant allocation, and Promissory Notes proceeds to be used for educational capital outlay needs, including renovation and remodeling projects and class size reduction.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The Apalachicola Bay Charter School, Inc., shown as a discretely presented component unit, is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

➤ **Deposits and Investments**

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

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost.

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

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➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost based on the last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased and adjusted at year-end to reflect year-end physical inventories.

➤ **Capital Assets**

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

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 straight-line method over the following estimated useful lives:

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

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

➤ **Long-Term Liabilities**

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

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

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benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain categorical 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 categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

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

Pursuant to Section 1013.64, Florida Statutes, the District received special allocations in the 2005-06 and 2006-07 fiscal years for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following three fiscal years. During the three-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2006 tax levy on September 7, 2006. 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 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 Franklin County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- 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.

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3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration, certain intergovernmental investment pools, certain money market funds registered with the Securities and Exchange Commission, interest-bearing time deposits or savings accounts in a qualified public depository, and direct obligations of the U.S. Treasury.

Investments with a fair value of \$28,033,769.05 at June 30, 2007, are in the Local Government Surplus Funds Trust Fund investment pool with an average maturity of 26 days. The District's investment in the Local Government Surplus Funds Trust Fund investment pool is unrated.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

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	Balance 7-1-06	Additions	Deletions	Balance 6-30-07
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 4,779,033.00	\$	\$	\$ 4,779,033.00
Construction in Progress	1,311,222.41	22,523,788.11		23,835,010.52
Total Capital Assets Not Being Depreciated	6,090,255.41	22,523,788.11		28,614,043.52
Capital Assets Being Depreciated				
Improvements Other Than Buildings	620,714.01		1,707.35	619,006.66
Buildings and Fixed Equipment	10,041,220.94	13,769.96	19,135.80	10,035,855.10
Furniture, Fixtures, and Equipment	1,679,482.49	19,919.80	197,321.32	1,502,080.97
Motor Vehicles	1,492,050.64	76,436.00		1,568,486.64
Computer Software	564,418.07	43,396.52	18,451.68	589,362.91
Total Capital Assets Being Depreciated	14,397,886.15	153,522.28	236,616.15	14,314,792.28
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	367,443.21	26,489.62	846.11	393,086.72
Buildings and Fixed Equipment	5,963,528.76	183,995.30	19,135.80	6,128,388.26
Furniture, Fixtures, and Equipment	1,154,971.91	144,910.42	187,641.80	1,112,240.53
Motor Vehicles	479,049.93	153,074.60		637,124.53
Computer Software	146,596.57	118,223.13	9,257.98	255,561.72
Total Accumulated Depreciation	8,111,590.38	631,693.07	216,881.69	8,526,401.76
Total Capital Assets Being Depreciated, Net	6,286,295.77	(478,170.79)	19,734.46	5,788,390.52
Governmental Activities Capital Assets, Net	\$ 12,376,551.18	\$ 22,045,617.32	\$ 19,734.46	\$ 34,402,434.04

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 158,074.60
Unallocated	473,618.47
Total Depreciation Expense - Governmental Activities	\$ 631,693.07

5. SPECIAL PUBLIC EDUCATION CAPITAL OUTLAY ADVANCE PAYABLE

The liability at June 30, 2007, of \$11,185,669.83 represents the amount of the Public Education Capital Outlay Special Facilities allocation expected to be replaced by other District capital outlay sources which are committed under Section 1013.64, Florida Statutes, for funding specific construction needs. The liability is expected to be retired by the close of the 2008-09 fiscal year.

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6. INSTALLMENT-PURCHASE PAYABLE

The class and amount of property being acquired under an installment-purchase contract are as follows:

	<u>Asset Balance</u>
Energy Retrofit Equipment	<u>\$ 1,421,372.23</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 290,290.07</u>	<u>\$ 277,282.71</u>	<u>\$ 13,007.36</u>

The stated interest rate is 4.691 percent.

7. NOTES PAYABLE

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

As a condition of the financing arrangement, the District has given a ground lease on District property to the Franklin School Board Leasing Corporation, with a rental fee of \$1.00 per year. The initial term of the lease commenced on December 29, 2006, and ends on the earlier of the date on which the notes have been paid, or June 30, 2034 (both dates inclusive). The property covered by the ground lease is, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the site included under the Ground Lease Agreement to the Corporation, or the Bank as the assignee of the Corporation.

The District property included in the ground lease under this arrangement is located in the West one half of Fractional Section 23, Township 8 South, Range 6 West, as more fully described in the Ground Lease Agreement. The lease payments are payable by the District, annually, on June 30 at an interest rate of 4.58 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

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<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 761,310.50	\$	\$ 761,310.50
2009	1,537,740.05	778,509.63	759,230.42
2010	1,537,740.05	814,660.60	723,079.45
2011	1,537,740.05	852,490.26	685,249.79
2012	1,537,740.06	890,307.66	647,432.40
2013-2017	7,688,700.29	5,119,795.54	2,568,904.75
2018-2022	7,688,700.26	6,424,734.22	1,263,966.04
2023	1,537,740.06	1,469,502.09	68,237.97
Total Minimum Lease Payments	<u>\$ 23,827,411.32</u>	<u>\$ 16,350,000.00</u>	<u>\$ 7,477,411.32</u>

8. CHANGES IN LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Balance</u> <u>7-1-06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6-30-07</u>	<u>Due in</u> <u>One Year</u>
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	\$ 542,140.94	\$	\$ 264,858.23	\$ 277,282.71	\$ 277,282.71
Special Public Education Capital Outlay					
Advance Payable	7,985,110.20	3,200,559.63		11,185,669.83	6,081,900.33
Notes Payable		16,350,000.00		16,350,000.00	
Compensated Absences Payable	<u>643,476.43</u>	<u>103,905.39</u>	<u>45,046.45</u>	<u>702,335.37</u>	<u>90,000.00</u>
Total Governmental Activities	<u>\$ 9,170,727.57</u>	<u>\$ 19,654,465.02</u>	<u>\$ 309,904.68</u>	<u>\$ 28,515,287.91</u>	<u>\$ 6,449,183.04</u>

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

9. RESERVE FOR 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 Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2007-08 fiscal year budget as a result of purchase orders outstanding at June 30, 2007.

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10. 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	\$ 68,291.41	\$ 400,000.00
Capital Projects:		
Local Capital Improvement	8,888.54	
Other	400,000.00	
Nonmajor Governmental		77,179.95
Total	<u>\$ 477,179.95</u>	<u>\$ 477,179.95</u>

The above interfund receivables and payables mainly represent moneys owed the Capital Projects – Other Fund by the General Fund for interest earnings from the State Board of Administration, and temporary loans owed by Nonmajor Governmental Funds for Federal expenditures paid by the General Fund and capital outlay expenditures paid by the Capital Projects – Local Capital Improvement Fund. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 414,000.00	\$ 40,000.00
Capital Projects:		
Local Capital Improvement		465,305.89
Nonmajor Governmental	405,305.89	314,000.00
Total	<u>\$ 819,305.89</u>	<u>\$ 819,305.89</u>

Transfers to the General Fund were capital outlay millage fund reimbursements and other unrestricted moneys. Transfers to the Nonmajor Governmental Funds were for debt service payments and to keep the District's Food Service Program solvent.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2006-07 fiscal year:

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<u>Source</u>	<u>Amount</u>
Gross Receipts Tax (Public Education Capital Outlay)	\$ 10,138,331.60
Categorical Educational Programs:	
Class Size Reduction	918,348.00
Transportation	160,359.00
Instructional Materials	126,199.00
Other	217,909.66
Florida Education Finance Program	585,701.00
Charter School Capital Outlay	140,473.00
State Forest Funds	136,026.55
Workforce Development Program	60,749.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	49,727.07
Discretionary Lottery Funds	45,108.00
Food Service Supplement	12,662.99
Mobile Home License Tax	3,835.52
Miscellaneous	<u>683,944.75</u>
Total	<u><u>\$ 13,279,375.14</u></u>

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

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2006 tax roll for the 2006-07 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	1.442	\$ 5,807,973.81
Basic Discretionary Local Effort	0.510	2,054,138.83
Supplemental Discretionary Local Effort	0.033	132,914.87
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>2.000</u>	<u>8,055,446.41</u>
Total	<u><u>3.985</u></u>	<u><u>\$16,050,473.92</u></u>

13. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System. The Florida Retirement System (FRS) is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement

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System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of the FRS.

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

A Deferred Retirement Option Program (DRO) 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 the DRO 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 DRO participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2006-07 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance supplement. Also, employer rates, other than for DRO participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan 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 for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$433,783.51, \$452,962.19, and \$576,133.47 respectively, which were equal to the required contributions for each fiscal year.

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Defined Contribution Plan. Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 13 District participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$71,036.58.

Pension Reporting. The financial statements and other supplementary information of the FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on 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.

14. OTHER POSTEMPLOYMENT BENEFITS

Pursuant to Section 112.0801, Florida Statutes, the District pays a portion of the cost of health care, dental care, and life insurance benefits for retired former employees. All of the District's employees may become eligible for those benefits if they reach normal retirement age and have their last ten years of service with the District. At June 30, 2007, benefits are being provided to 70 retired former employees. The cost of the benefits provided is recognized as an expense each month as premiums are paid. For the 2006-07 fiscal year, premiums totaled \$24,215.87.

15. CONSTRUCTION CONTRACT COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
New K-12 Consolidated School:			
Architect	\$ 2,499,062.22	\$ 2,070,807.54	\$ 428,254.68
Construction Manager	35,173,318.48	19,131,950.44	16,041,368.04
Direct Purchase Orders	6,477,718.52	1,134,500.50	5,343,218.02
Total	\$ 44,150,099.22	\$ 22,337,258.48	\$ 21,812,840.74

The School is being funded primarily by Legislative appropriations from the Public Education Capital Outlay Special Facility Construction Account. An initial allocation of \$13,150,000 was received in the 2005-06 fiscal

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year, a second allocation of \$13,150,000 was received in the 2006-07 fiscal year, and a third allocation of \$11,000,000 was appropriated by the Legislature in the 2007-08 fiscal year.

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Franklin County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(10)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance.

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

The Panhandle Area Educational Consortium - Risk Management Consortium reduced its insurance coverage for property, excluding coverage for fire damage, of all Consortium members from approximately \$204 million for the 2005-06 fiscal year to approximately \$24 million for the 2006-07 fiscal year, or a reduction in coverage of approximately \$180 million. For the same time period, Consortium insurance coverage for fire damage decreased from \$204 million to \$34 million, a reduction of approximately \$170 million.

17. SUBSEQUENT EVENTS

As discussed in Note 3, at June 30, 2007, the District had \$28,033,769.05 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for

EXHIBIT - H (Continued)
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the District and the State Board of Administration. The District had \$19,154,435.43 invested in the Pool as of February 19, 2008.

EXHIBIT - I
FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Through State	\$ 170,000.00	\$ 176,829.62	\$ 176,829.62	\$
State	2,289,424.00	2,332,909.76	2,332,909.76	
Local	7,923,333.00	8,164,896.04	8,164,896.04	
Total Revenues	10,382,757.00	10,674,635.42	10,674,635.42	
Expenditures				
Current - Education:				
Instruction	7,001,205.00	7,317,041.61	7,304,013.53	13,028.08
Pupil Personnel Services	440,844.00	247,991.00	243,366.66	4,624.34
Instructional Media Services	169,951.00	243,090.00	236,948.69	6,141.31
Instruction and Curriculum Development Services		610.00	541.34	68.66
Instructional Staff Training Services	7,600.00	11,500.00	8,191.94	3,308.06
Instructional Related Technology		48,500.00	47,911.04	588.96
Board of Education	303,194.00	284,420.00	281,945.84	2,474.16
General Administration	294,311.00	306,728.80	292,100.25	14,628.55
School Administration	490,182.00	532,682.60	528,700.77	3,981.83
Facilities Acquisition and Construction		2,000.00	1,175.00	825.00
Fiscal Services	339,469.00	355,660.55	326,619.70	29,040.85
Food Services		6,000.00	2,681.13	3,318.87
Central Services	201,720.00	267,299.71	263,241.57	4,058.14
Pupil Transportation Services	599,424.00	615,033.92	607,479.23	7,554.69
Operation of Plant	966,584.00	951,571.88	946,244.25	5,327.63
Maintenance of Plant	322,136.00	250,300.00	241,941.77	8,358.23
Administrative Technology Services		38,500.00	37,210.90	1,289.10
Fixed Capital Outlay:				
Other Capital Outlay		5,725.00	5,725.00	
Total Expenditures	11,136,620.00	11,484,655.07	11,376,038.61	108,616.46
Excess (Deficiency) of Revenues Over Expenditures	(753,863.00)	(810,019.65)	(701,403.19)	108,616.46
Other Financing Sources (Uses)				
Transfers In	414,000.00	414,000.00	414,000.00	
Transfers Out	(40,000.00)	(40,000.00)	(40,000.00)	
Total Other Financing Sources (Uses)	374,000.00	374,000.00	374,000.00	
Net Change in Fund Balances	(379,863.00)	(436,019.65)	(327,403.19)	108,616.46
Fund Balances, July 1, 2006	825,590.01	825,590.01	825,590.01	
Fund Balances, June 30, 2007	\$ 445,727.01	\$ 389,570.36	\$ 498,186.82	\$ 108,616.46



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin County District School Board as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Franklin County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors for the discretely presented component unit. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report, Finding Nos. 1 through 3, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding No. 1 to be a material weakness.

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, administrative 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 which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** and the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** sections of this audit report.

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
February 19, 2008



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB *CIRCULAR A-133***

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2007. The District's major Federal programs are identified in the ***SUMMARY OF AUDITOR'S RESULTS*** section of the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's 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 the OMB's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed some 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 accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding Nos. 1 and 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we considered to be a significant deficiency.

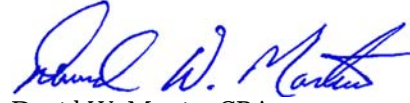
A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** as Federal Awards Finding No. 2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider the deficiency described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS*** to be a material weakness.

The District's response to the findings identified in our audit is described in the accompanying ***MANAGEMENT RESPONSE***. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
February 19, 2008

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007**

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:				
Florida Department of Agriculture and Consumer Services: Food Donation	10.550 (2)(A)	None	\$ 45,172.14	\$
Florida Department of Education: Child Nutrition Cluster:				
School Breakfast Program	10.553	321	71,891.04	
National School Lunch Program	10.555	300	315,473.33	
Total Child Nutrition Cluster			387,364.37	
Florida Department of Financial Services: Schools and Roads - Grants to States	10.665	None	17,044.35	
Total United States Department of Agriculture			449,580.86	
United States Department of Labor:				
Indirect:				
Gulf Coast Workforce Development Board, Inc.: WIA Cluster:				
WIA Adult Program	17.258	None	87.91	
WIA Youth Activities	17.259	None	87.91	
WIA Dislocated Workers	17.260	None	98.89	
Total United States Department of Labor			274.71	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	341,644.27	
Special Education - Preschool Grants	84.173	267	30,077.06	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	620.91	
Washington County District School Board:				
Special Education - Grants to States	84.027	None	255.00	
Total Special Education Cluster			372,597.24	
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191	26,166.00	
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	440,942.28	
Vocational Education - Basic Grants to States	84.048	151	65,836.63	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	12,732.71	
Charter Schools	84.282	298	96,000.00	96,000.00
Twenty-First Century Community Learning Centers	84.287	244	313,719.96	
State Grants for Innovative Programs	84.298	113	10,589.18	
Education Technology State Grants	84.318	121	4,207.16	
Comprehensive School Reform Demonstration	84.332	128	39,636.48	
Rural Education	84.358	110	41,174.57	
Improving Teacher Quality State Grants	84.367	224	110,224.21	
Hurricane Education Recovery	84.938	None	344.61	
Washington County District School Board:				
Reading First State Grants	84.357	None	57,721.70	
Mathematics and Science Partnerships	84.366 (2)(B)	None	2,231.00	
Bay County District School Board:				
Tech-Prep Education	84.243	None	7,800.00	
Total United States Department of Education			1,601,923.73	96,000.00
Total Expenditures of Federal Awards			\$ 2,051,779.30	\$ 96,000.00

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2006-07 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance.

(A) Food Donation - Represents the amount of donated food used during the 2006-07 fiscal year. Commodities are valued at fair value as determined at the time of donation.

(B) Mathematics and Science Partnerships - Represents the original acquisition costs of equipment to the Pass-Through Grantor.

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SUMMARY OF AUDITOR'S RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section __.505, the following is a summary of the results of the audit of the Franklin County District School Board for the fiscal year ended June 30, 2007:

- An unqualified opinion was issued on the financial statements.
- Certain matters involving the internal control and its operation were considered to be significant deficiencies, and one of the significant deficiencies was considered a material weakness.
- No noncompliance was reported which is material to the financial statements.
- A certain matter was considered to be a significant deficiency in internal control over major Federal programs, although the significant deficiency was not considered to be a material weakness.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***
- Major Federal programs included: Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553 and National School Lunch Program (CFDA No. 10.555)]; Title I Grants to Local Educational Agencies (CFDA No. 84.010); and Special Education Cluster [Special Education – Grants to States (CFDA No. 84.027) and Special Education – Preschool Grants (CFDA No. 84.173)].
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$300,000.
- The low risk entity threshold was not applied.

**FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FINDINGS AND RECOMMENDATIONS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)

Finding Type: Noncompliance

Questioned Costs: Not Applicable

Eligibility/Special Tests and Provisions. Title 7, Section 245.6, Code of Federal Regulations, provides application and other documentation requirements for a child to qualify for meals served free or at a reduced-price under the National School Lunch and School Breakfast programs. The application is used to establish the child's family income and family size to place the child within the income eligibility standards issued by the Florida Department of Education in accordance with Federal guidelines. Further, Public Law 108-265 requires the District to verify the eligibility of 3 percent of its households selected from a sample of applications approved for free and reduced-price meals. A United States Department of Agriculture memorandum, dated November 19, 2004, provides that the basic sample must generally be drawn from error-prone applications. Public Law 108-265 defines error-prone applications as those that indicate monthly income is within \$100 or annual income is within \$1,200, of the income eligibility limitations for free or reduced price meals. Based on District records and discussions with the food service director and staff at the Florida Department of Education, the District was required to select its 2006-07 fiscal year sample from error-prone applications.

As part of the verification process, the District selected 24 family applications which represented the free and reduced-price meal status of 30 students; however, our review of these applications disclosed the following noncompliance issues:

- The family income listed on ten of the applications selected in the District's verification sample was not within the required income guidelines for error-prone applications. Following this verification process, the District potentially decreased its chance of selecting applications that contained errors.
- We noted two instances in which the District incorrectly recalculated household income during the verification process. Based on income documentation received during the process, the District neglected to change one student's meal status from free to reduced-price, and another student's meal status from reduced-price to full-price.

Without proper verification of free and reduced-price meal applications, the District has limited assurance of the eligibility of the students receiving the Federally-funded meals.

Recommendation: The District should implement procedures to ensure that the verification process of free and reduced-price meal applications is performed in accordance with Federal law. The procedures should limit the verification sample selection to error-prone applications and ensuring the meal status changes as a result of the process are properly made.

District Contact Person: Robin Tennille, Director of Food Service

Federal Awards Finding No. 2:

Federal Agencies: United States Department of Education

Pass-Through Entities: Florida Department of Education

Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)

Finding Type: Significant Deficiency and Noncompliance

Questioned Costs: Not Applicable

Eligibility. The District is required, pursuant to Title 34, Part 200, Subpart A, Section 200.78, Code of Federal Regulations, to allocate Title I schoolwide program funds to schools identified as eligible and selected to participate, in rank order on the basis of the total number of children from low-income families in each school. Although requested, District personnel were unable to provide the basis for the calculation of the original allocation to each of the Title I schools. District personnel indicated that the District Title I program director who calculated the initial allocation amounts applicable to each of the qualifying schools was no longer a District employee and, as a result, current staff could not determine the basis for the initial allocations. Our tests disclosed that the number of children from low-income families in each school that was used in the calculation did not agree with the Public School Eligibility Survey prepared by the Florida Department of Education and incorporated into the grant application. Additionally, our review disclosed that the rank order of low-income students by school was not consistent with the rank order of Title I program per pupil expenditures by school, as follows:

	Low-Income Student	Low-Income Students	On Number of Low-Income Students	Expenditures	On Per Pupil Expenditures
Carrabelle School	294	43	1	\$ 283.67	3
Brown Elementary	191	28	2	\$ 377.15	2
Chapman Elementary	179	26	3	\$ 522.27	1
Franklin County Learning Center	18	3	4	\$	4

Without properly establishing Title I schoolwide program budgets by school, the risk increases that resources will not be allocated to the schools with the greatest need.

Matching, Level of Effort, Earmarking. For the 2005-06 school year, three District schools were identified as schools in need of improvement (SINI) pursuant to the No Child Left Behind Act of 2001. Title 34, Section 200.45, Code of Federal Regulations (CFR), provides that, for those schools identified for a second year as a SINI, the District must arrange for eligible students to receive supplemental educational services (SES) from a State-approved provider. Section 1008.331(2), Florida Statutes, provides, in part, that if the contract with the State-approved provider is signed less than 20 days prior to October 15, the provider shall be afforded no less

than 20 days from the date the contract was executed to begin delivering services. Also, the statute provides that the District must create an enrollment process for SES, ensure that the process enables eligible students to begin receiving services no later than October 15 for each year, and make enrollment forms freely available to parents both prior to and after the start of the school year. According to guidance from the Florida Department of Education (FDOE), districts should properly communicate to inform families about SES using such means as district websites, phone calls, school newsletters, TV, radio, or newspaper ads, and parent teacher conferences to reach families. FDOE guidance also suggests that if there are few to sign up for the services, it may be useful for districts to evaluate their efforts to more effectively design and implement outreach to eligible students.

Our review disclosed that improvements could be made in the District's notification efforts. District records indicate that only 140 students, representing approximately 21 percent of those eligible for SES, were actually provided SES. The advertisements and required communications to parents of students attending Title I schools identified as SINI disclosed that parents were not notified of available SES until November 16, 2006, or about three months after school started. Also, although requested, documentation was not provided to evidence the date the provider was notified to provide SES. The agreement to provide SES was signed by the provider on November 28, 2006, or over a month after the latest date for students to start receiving the services. The earliest record of services provided pursuant to the contract was January 16, 2007, or 49 days after the contract was signed by the provider. With timely notification to families and providers of SES, there is a better chance that families may elect to have their children participate in these services.

Recommendation: District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to the schools as required. Additionally, the District should effectively design and implement outreach procedures to ensure supplemental educational services are provided to eligible students on a timely basis.

District Contact Person: Deborah Huckeba, Dean of Franklin County Elementary School

*FRANKLIN COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007*

Listed below is the District's summary of the status of prior audit findings on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2007-132 (1)	Special Education - Grants to States (CFDA No. 84.027) - Allowable Costs/Cost Principles; Period of Availability	District records did not evidence that the Charter School was provided Special Education services on an equitable basis resulting in questioned costs of \$29,720. Also, there was \$16,090 of questioned costs attributable to Special Education expenditures that were prior to the period of availability.	Corrected.	
2007-132 (2)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Allowable Costs/Cost Principles	The food service program administrator was paid 50 percent from the program, but there were no personnel activity reports or other time and effort records to support the allocation.	Corrected.	
2007-132 (3)	Education Technology State Grants (CFDA No. 84.318) - Suspension and Debarment	The District entered into contracts, each exceeding \$25,000, with three contractors without determining that they were not suspended or debarred. Ultimately determination was made that the contractors were not suspended or debarred.	Corrected.	

MANAGEMENT RESPONSE SECTION



Jo Ann B. Gander
Superintendent

Franklin County Schools

Administrative Offices
155 Avenue E / Apalachicola, Florida 32320
Phone (850) 653-8831
Fax (850) 653-8984
www.franklincountyschools.org



Striving for Excellence

Board Meets First Thursday
After First Monday in Each Month

February 5, 2008

David W. Martin, CPA
Auditor General
4638 Highway 90 East
Marianna, FL 32446

Re: Response to Audit Findings

Dear Mr. Martin:

Federal and State rules and regulations with which local school districts must comply have proliferated in recent years while funding to hire sufficient staff to address those requirements has not kept pace. This is particularly true in small counties like Franklin where declining enrollment has reduced funding to the point that it is a struggle just to hire enough teachers to adequately staff our schools. Declining enrollment however, does not translate into declining compliance requirements.

Franklin must meet the same compliance requirements as do the largest school districts in the state, some of which employ administrators by the dozens for that purpose. Each member of our small administrative staff must therefore carry a much larger work load than their counterparts in the larger districts. The result is that even though each of our administrators works many hours in excess of a normal work week, it is impossible for them to meet all the demands that the overwhelming number of compliance matters place on them. The best we can do under these conditions is to prioritize those issues with the potential to do us the greatest harm and address them first. Less urgent issues are left to deal with as available staff and time permit.

All of the audit findings are a direct result of an inadequate number of administrative staff. Consequently, the approach we are forced to take with audit findings is the same as that we must use in dealing with the issues that lead to them. Those findings relating to matters with the potential for additional costs to the district, such as questioned Federal program costs, or address major internal control weaknesses which place us at a high and imminent risk of incurring a significant loss, will be addressed first. All other findings will be dealt with in the order of importance as available staff and time permit. We concur with specific findings cited by the Auditors. They recommended appropriate corrective actions for each of them. We will endeavor to carry out those recommendations as best and as soon as we can.

Sincerely,

Jo Ann B. Gander
Superintendent

DENISE D. BUTLER
District 1

DAVID HINTON
District 2

TERESA ANN MARTIN
District 3
Vice Chair

JIMMY GANDER
District 4
Chair

JOHN RICHARDS
District 5

An Equal Opportunity Employer