REPORT NO. 2010-181
MARCH 2010

MONROE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Monroe County District School Board members and the Superintendents who served during the 2008-09 fiscal year are listed below:

	District No.
Steven Pribramsky, Chair to 11-17-08	1
Andy Griffiths, Chair from 11-18-08	2
Dr. R. Duncan Mathewson III, Vice Chair to 11-17-08	3
John Dick	4
Dr. Debra S. Walker, Vice Chair from 11-18-08	5

Randy Acevedo, Superintendent to 6-10-09 (1)
Michael J. Henriquez, Acting Superintendent from 06-11-09

Note (1) Suspended by order of the Governor of Florida, on 6-11-09, pursuant to Article IV, Section 7, Florida Constitution, for alleged official misconduct in violation of Section 838.022(1)(c), Florida Statutes. On August 28, 2009, the suspended Superintendent was found guilty of three counts of official misconduct in violation of Section 838.022(1)(c), Florida Statutes.

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

The audit team leader was James A. Bell, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. For the information technology portion of this audit, the audit team leader was Sue Graham, CPA, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

MONROE COUNTY DISTRICT SCHOOL BOARD

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	13
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds	25
Statement of Fiduciary Net Assets – Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	27
Notes to Financial Statements	28
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds	56
Schedule of Funding Progress – Other Postemployment Benefits Plan	58
Schedule of Funding Progress – Early Retirement Plan	59
Schedule of Employer Contributions – Early Retirement Plan	60
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	61
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*	62
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*	64
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	99
EXHIBIT A – MANAGEMENT'S RESPONSE	100

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies, four of which we consider to be material weaknesses, as summarized below.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States, as summarized in Finding No. 1 below. We also noted certain additional matters that are summarized below.

MATERIAL WEAKNESSES

Finding No. 1: Controls over certain Adult Education Program purchases, reimbursements to employees for purchases of District materials and supplies, travel, and other expenditures could be enhanced to prevent, or detect and correct, errors or fraud.

Finding No. 2: The District used capital outlay millage levy proceeds, totaling $711,453.52, to pay for items that were not specifically authorized by Section 1011.71, Florida Statutes. Additionally, contrary to Section 1011.71, Florida Statutes, the District's published notice of the tax levy and its annual capital outlay budget did not clearly identify the projects which were anticipated to be funded with the estimated tax levy.

Finding No. 3: The District used its school capital outlay sales surtax proceeds, totaling $293,966.52, for purposes contrary to Section 212.055(6), Florida Statutes.

Finding No. 4: Improvements could be made to ensure that account balances, transactions, and note disclosures are properly reported on the financial statements.

SIGNIFICANT DEFICIENCIES

Finding No. 5: Controls could be enhanced to ensure that investments are made pursuant to competitive selection procedures consistent with Board policy, and that adequate records are maintained for investments.

Finding No. 6: Improvements were needed in controls over food service collections.

ADDITIONAL MATTERS

Finding No. 7: Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented, and compensation is consistent with Board intent.

Finding No. 8: Improvements could be made in control procedures over gasoline and diesel fuel inventories.

Finding No. 9: Improvements could be made in controls over the collection of After School Day Care fees.

Finding No. 10: Controls over Adult Education Department cash collections need to be improved.

Finding No. 11: To ensure compliance with Section 119.071(5)(a), Florida Statutes, policies and procedures could be enhanced for notifying individuals of the need for and use of social security numbers.

Finding No. 12: Improvements could be made in controls over ordering, processing, and distributing high school diplomas.

Finding No. 13: A formal plan to fund the property self-insurance program needs to be established for wind damage.

Finding No. 14: **The District could enhance procedures to ensure that District contributions to the health self-insurance plan are consistent with Board-approved rates.**

Finding No. 15: **Controls over construction and day-labor projects could be enhanced.**

Finding No. 16: **Procedural improvements could be made for Maintenance Department purchases to ensure that purchases are made in accordance with bid requirements and contract terms, are properly supported by vendor invoices, and the receipt of goods and services is evidenced by authorized persons.**

Finding No. 17: **The District maintained approximately $500,000 in two certificates of deposit at a financial institution that was not approved as a qualified public depository, contrary to Section 280.03, Florida Statutes.**

Finding No. 18: **The Board approved promissory notes for no interest loans, totaling $7,000, to three employees, contrary to Article 7, Section 10 of the State Constitution.**

Finding No. 19: **The District's procedures for requesting and approving services from the Information Technology Services (ITS) department needed improvement.**

Finding No. 20: **The District's disaster recovery plan needed improvement.**

Finding No. 21: **The District's management of user access privileges needed improvement.**

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Fund for the Improvement of Education; Special Education Cluster; Title I, Part A Cluster; Adult Education; Twenty-First Century; and Improving Teacher Quality programs were audited as major Federal programs. The results of our audit indicated that, except for the Adult Education program, the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: **Controls over charges to Federal programs could be improved to help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities.**

Federal Awards Finding No. 2: **Procedures could be improved to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives.**

Federal Awards Finding No. 3: **Controls could be enhanced to ensure that all teachers hired to teach core academic subjects in Title I schools are highly qualified and that parents receive timely notification when their children have been assigned or have been taught by non-highly qualified teachers or paraprofessionals.**

Federal Awards Finding No. 4: **Procedures could be enhanced to ensure charges to the Special Education program for early intervention services are properly supported.**

Federal Awards Finding No. 5: **Controls could be strengthened to ensure accurate meal counts are reported prior to the submission of the monthly claims for reimbursement.**

Other Matter: **A forensic investigation report, presented to the Board in August 2009, addressed questionable purchasing card charges, cash receipts in the Adult Education Department, and other allegations.**

Audit Objectives and Scope

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

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**

- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2009-209.

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, 2009. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Monroe County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 school internal funds, which represent 18 percent of the assets and 23 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Monroe County District School Board as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, 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 Monroe County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 56 through 60) are not required parts 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 on it.

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
March 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Monroe County has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activities, (c) identify changes in the District's financial position, and (d) highlight significant issues in individual funds. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the District's financial statements and notes to financial statements, found on pages 13 through 55.

FINANCIAL HIGHLIGHTS

An overview of significant financial information for the current year includes:

- The District's total net assets decreased by $2.8 million (or 1.4 percent).
- Total expenditures and other financing uses in all governmental funds exceeded revenues and other financing sources by $ 2.1 million. This occurred mainly because of a spend down of capital outlay and operating funds to rebuild two schools, as planned.
- Capital assets, net of depreciation, decreased by $11.7 million (or 4.2 percent), to $270.3 million. A contributing factor for the decrease was the loss on disposal of certain buildings and fixed equipment.
- Capital-related debt decreased $11.5 million because of debt payments, as scheduled.
- The District's financial position remains relatively healthy.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the 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. 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, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

The government-wide financial statements present the activities of the District in the following 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 presents four separate legal entities in this report. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. The Big Pine Elementary Academy, Inc.; the Montessori Elementary Charter School, Inc.; and the Montessori Island Charter School Inc., d/b/a Treasure Village Montessori School, are reported separately from the District as aggregate discretely presented component units. Financial information for these component units is reported separately from the financial information presented for the District.

  The Monroe School Board Leasing Corporation (Corporation), although also a legally separate, was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the School Board and the Corporation, the Corporation is included as an integral part of the District.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three 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, Special Revenue - Other Fund, Special Revenue – ARRA Economic Stimulus Fund, Debt Service – Other Fund, Capital Projects – Capital Improvement Section 1011.71(2) Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Proprietary Funds: Proprietary funds, such as internal service funds, are established to account for activities in which a fee is charged for services. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for self-insurance programs, which are supported, in part, through user charges.

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 a pension trust fund to account for the resources used to finance the early retirement plan.

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

This section presents condensed financial information from the government-wide statements that compares the current year to the prior year. As mentioned above, net assets may serve over time as a useful indicator of a government's financial position.

Statement of Net Assets

The District's combined net assets decreased 1.4 percent, or $2.8 million, from $207.4 million to $204.6 million. Total assets reported were $312.2 million and total liabilities reported were $107.6 million. A decrease in net assets is an indication that the District's financial health is not improving. Our analysis below focuses on the net assets of the governmental activities.

MD&A - Table 1
Statement of Net Assets
(In thousands)

	6-30-09	6-30-08	Decrease
Current and Other Assets	$ 41,839	$ 46,400	$ (4,561)
Capital Assets	270,331	282,033	(11,702)
Total Assets	312,170	328,433	(16,263)
Long-Term Liabilities	104,379	116,869	(12,490)
Other Liabilities	3,234	4,175	(941)
Total Liabilities	107,613	121,044	(13,431)
Net Assets:			
Invested in Capital Assets -			
Net of Related Debt	178,482	178,649	(167)
Restricted	27,259	28,443	(1,184)
Unrestricted (Deficit)	(1,184)	297	(1,481)
Total Net Assets	$ 204,557	$ 207,389	$ (2,832)

Total Assets. Total assets were $312.2 million and consisted of two components: current and other assets, and capital assets.

- Current and Other Assets - the largest component of current and other assets are cash and investments, which comprise $37.1 million, or 88.8 percent of the current assets of $41.8 million.
- Capital assets totaled $270.3 million, which represents a decrease of $11.7 million from the prior year.

Capital Assets, at Year-end
(net of depreciation, in thousands)

	6-30-09	6-30-08	Increase (Decrease)
Land	$ 6,612	$ 6,612	$
Construction in Progress		81,283	(81,283)
Buildings and Improvements	253,375	181,923	71,452
Furniture, Fixtures and Equipment	4,889	6,379	(1,490)
Motor Vehicles	3,626	3,706	(80)
Property Under Capital Leases	1,585	1,861	(276)
Audio Visual Materials and Computer Software	244	269	(25)
Total	$ 270,331	$ 282,033	$ (11,702)

The District completed construction on two major projects, the rebuilding of Marathon Middle/High School and Key Largo School. More detailed information about the District's capital assets is presented in Note 4 to the Financial Statements.

Total Liabilities. Total liabilities consisted of two components – long-term liabilities and current and other liabilities.

- Current and other liabilities totaled $3.2 million and consisted primarily of accounts payable ($1.3 million), construction contracts retainage payable ($0.8 million), and estimated arbitrage rebate ($1 million).
- Long-term liabilities totaled $104.4 million, of which $91.8 million (Table 3) relates to financing construction projects and the purchase of data processing equipment. The balance of $12.6 million includes $8.4 million for compensated absences, $2.9 million for estimated insurance claims payable, and $1.3 in other postemployment benefits payable.

Table 3
Outstanding Capital-Related Debt, at Year-end
(in thousands)

	6-30-09	6-30-08	Decrease
State School Bonds Payable	$ 1,420	$ 1,615	$ (195)
Revenue Bonds Payable	70,265	79,035	(8,770)
Obligations Under Capital Lease	1,312	2,202	(890)
Certificates of Participation Payable	18,852	20,532	(1,680)
Total	$ 91,849	$ 103,384	$ (11,535)

The District's capital-related debt decreased by $11.5 million, due to scheduled debt service payments. More detailed information about the District's long-term liabilities is presented in the Notes 6 through 9 to the financial statements.

Net Assets. Net Assets are composed of three sections: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. As itemized in the following table, total net assets decreased by $2.8 million.

MD&A - Table 4
Net Assets
(in thousands)

	6-30-09	6-30-08	Decrease
Invested in Capital Assets, Net	$ 178,482	$ 178,649	$ (167)
Restricted Net Assets	27,259	28,443	(1,184)
Unrestricted Net Assets (Deficit)	(1,184)	297	(1,481)
Total	$ 204,557	$ 207,389	$ (2,832)

Invested in Capital Assets, Net of Related Debt. This component of net assets consists of capital assets, net of depreciation and reduced by the outstanding balances of bonds, leases, and certificates of participation that are attributable to the acquisition, construction, or improvement of these assets. These assets decreased by $0.2 million, during the 2008-09 fiscal year.

Restricted Net Assets. Net assets are reported as restricted when constraints are placed on the assets either externally by grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets decreased during the 2008-09 fiscal year by $1.2 million.

Unrestricted Net Assets. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - totaled a deficit of $1.2 million at June 30, 2009, which is $1.5 million less than the balance at June 30, 2008. The decrease in unrestricted net assets can be attributed, in part, to the implementation of Governmental Accounting Standards Board Statement No. 45 as described in Note 16 of the financial statements.

Statement of Activities

The statement of activities, presented in MD&A - Table 5, represents the revenues, expenses, and changes in net assets. Revenues totaled $120.5 million and expenses totaled $123.3 million, resulting in a reduction in net assets of $2.8 million.

MD&A - Table 5
Statement of Activities
(in thousands)

	2009	2008	Increase (Decrease)
Program Revenues			
Charges for Services	$ 2,117	$ 2,479	$ (362)
Operating Grants and Contributions	3,020	2,986	34
Capital Grants and Contributions	983	4,868	(3,885)
General Revenues			
Property Taxes Levied for Operational Purposes	62,830	67,685	(4,855)
Property Taxes Levied for Capital Projects	12,945	13,772	(827)
Local Sales Taxes	11,611	12,678	(1,067)
Grants and Contributions - Not Restricted	24,422	24,812	(390)
Unrestricted Investment Earnings	1,046	2,202	(1,156)
Miscellaneous	1,480	5,773	(4,293)
Total Revenues	120,454	137,255	(16,801)
Functions/Program Expenses			
Instruction	58,322	61,132	(2,810)
Pupil Personnel Services	5,301	5,404	(103)
Instructional Media Services	987	1,055	(68)
Instruction and Curriculum Development Services	2,789	3,458	(669)
Instructional Staff Training	1,458	2,160	(702)
Instruction Related Technology	1,259	1,294	(35)
Board of Education	836	642	194
General Administration	922	1,079	(157)
School Administration	5,396	5,618	(222)
Facilities Acquisition and Construction	3,992	8,776	(4,784)
Fiscal Services	1,168	1,210	(42)
Food Services	3,062	3,165	(103)
Central Services	1,223	1,240	(17)
Pupil Transportation Services	4,327	4,699	(372)
Operation of Plant	8,424	8,959	(535)
Maintenance of Plant	3,110	2,926	184
Administrative Technology Services	379	386	(7)
Community Services	1,046	1,259	(213)
Interest on Long-term Debt	3,981	3,779	202
Unallocated Depreciation Expense	10,676	6,362	4,314
Loss on Disposal of Capital Assets	4,628		4,628
Total Functions/Program Expenses	123,286	124,603	(1,317)
Increase (Decrease) in Net Assets	(2,832)	12,652	(15,484)
Net Assets, July 1, 2008	207,389	194,737	12,652
Net Assets, June 30, 2009	$ 204,557	$ 207,389	$ (2,832)

Revenues. Revenues totaled $120.5 million, which is a decrease of $16.8 million (12.2 percent) from the $137.3 million received during the 2007-08 fiscal year. Capital grants and contributions decreased $3.9 million as a result of State budget reductions in the Class Size Reduction Construction and Public Education Capital Outlay program funds. In addition, property taxes levied for operational purposes declined $4.9 million due to lower assessed property values and a decrease in the millage rate.

Expenses. Total expenses decreased by $1.3 million, or 1 percent, from the $124.6 million expended during the 2007-08 fiscal year. Decreases in instruction and facilities acquisition and construction expense functions were partially offset by increases in depreciation expense and the loss on disposal of capital assets related to the rebuilding of the Marathon Middle/High and Key Largo schools.

FUND FINANCIAL ANALYSIS

Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often requires certain budgetary disclosures. The focus of the financial statements is on major funds, as summarized in MD&A – Table 6. Fund statements present the financial information of each major fund in a separate column and all nonmajor funds are aggregated and displayed in a single column. The criteria for major fund presentation are:

- Total assets, liabilities, revenues, or expenditures of that individual fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all funds, and
- Total assets, liabilities, revenues, or expenditures of that individual fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. The District had no enterprise funds during the 2008-09 fiscal year.
- The State has directed that the American Recovery and Reinvestment Act (ARRA) Economic Stimulus funding be reported as a major fund.
- Management also has the discretion to present funds not meeting these criteria as major funds if it may be of public interest or to maintain consistency in financial reporting.
- The District reports six major funds for the 2008-09 fiscal year:
    - General Fund.
    - Special Revenue – Other Fund
    - Special Revenue - ARRA Economic Stimulus Fund
    - Debt Service – Other Fund
    - Capital Projects – Capital Improvement Section 1011.71(2) Fund
    - Capital Projects – Other Fund

MD&A - Table 6
Statement of Revenues, Expenditures, and Changes in Fund Balance
(in thousands)

	General Fund	Special Revenue Other	ARRA Economic Stimulus	Debt Service-Other Fund	Capital Outlay LCIF	Other Capital Outlay	Other Governmental	Total Governmental
Total Revenues	$ 83,999	$ 7,220	$ 12	$ 3	$ 12,950	$ 11,646	$ 4,231	$ 120,061
Total Expenditures	(89,240)	(7,220)	(12)	(13,738)	(4,616)	(3,515)	(3,883)	(122,224)
Other Financing Sources (Uses)	4,176			15,100	(6,618)	(12,485)	(134)	39
Net Changes in Fund Balances	(1,065)			1,365	1,716	(4,354)	214	(2,124)
Fund Balances, Beginning	8,083			7,967	7,304	12,895	240	36,489
Fund Balances, Ending	$ 7,018	$ 0.00	$ 0.00	$ 9,332	$ 9,020	$ 8,541	$ 454	$ 34,365

The District reported 76.3 percent of total revenues from local sources, including funds reported from property tax levies and the local sales tax revenues. Federal funds accounted for 8.4 percent of total revenues reported, while State funds contributed 15.3 percent. Governmental fund revenues totaled $120.1 million, which is a decrease of $14.7 million under the 2007-08 fiscal year. A summary of the District's funding sources are shown in MD&A – Table 7 below.

MD&A - Table 7
Revenues
(in thousands)

	2009	2008	Increase (Decrease)
Federal Direct	$ 1,976	$ 1,681	$ 295
Federal Through State and Local	8,147	7,803	344
State	18,302	23,183	(4,881)
Local	91,636	102,072	(10,436)
Total	$ 120,061	$ 134,739	$ (14,678)

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is $6.3 million, while the total fund balance is $7 million. The total fund balance decreased by $1.1 million during the fiscal year. While revenues declined $6.2 million primarily from lower property tax revenues, the District was able to trim expenditures by $4.7 million primarily in the areas of instruction, pupil transportation, and operation of plant due mainly to a decrease in staff allocations and reduction in operating costs to partially offset the decline in revenues.

The Special Revenue - Other Federal Programs Fund accounts for the financial resources of certain Federal grant programs. Revenues and expenditures totaled $7.2 million during the 2008-09 fiscal year, which represents a slight increase from the previous fiscal year.

The Special Revenue - ARRA Economic Stimulus Fund was established during the 2008-09 fiscal year to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act. Revenues and expenditures totaled $11,692.41 each during the 2008-09 fiscal year.

The Debt Service – Other Fund had a total fund balance of $9.3 million, which is restricted for debt service. The significant activity during the year was the scheduled sales tax revenue bonds and certificates of participation debt payments. Proceeds to fund these payments were transferred in from various capital projects funds.

The Capital Projects - Capital Improvement Section 1011.71(2) Fund had a total fund balance of $9 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by $1.7 million because there was significantly less construction activity during the 2008-09 fiscal year.

The Capital Projects – Other Fund has a total fund balance of $8.5 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased $4.4 million in the current year, which is a significantly smaller decrease than the $17.5 million decline in the previous year. The decline in fund balance for the current year is mainly because of operating transfers from the fund to service the debt of new schools.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the year, the District revised its General Fund budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved periodically throughout the fiscal year to record new grants. The second category includes changes in revenue estimates from the State of Florida Education Finance Program (FEFP) during the year. Finally, the Board approved transfers between expenditure functions and objects. There were no significant variances between the original and final budget amounts or between the final budget and actual amounts.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of the Monroe County District School Board for general operating purposes is closely tied to that of the State. The formula for determining funding for education is set by statute. State funds to school districts are provided primarily by Legislative appropriations from the State's general revenue funds under FEFP, and State funding for operations is primarily from sales, gasoline, and corporate income taxes. Additionally, the level of tourism in the State heavily influences the amount of taxes collected. Significant changes in State revenue collections could directly impact future District revenue allocations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Monroe County School Board, 241 Trumbo Road, Key West, Florida 33040.

BASIC FINANCIAL STATEMENTS

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 30,193,625.88	$ 917,677.00
Investments	6,926,671.81	
Accounts Receivable	30,717.39	68,463.00
Due from Other Agencies	2,587,562.22	13,597.00
Inventories	57,972.11	13,712.00
Prepaid Items	412,939.40	17,419.00
Other Assets		15,000.00
Deferred Charges	567,612.77	
Restricted Investments	1,062,449.28	
Capital Assets:		
Nondepreciable Capital Assets	6,611,909.33	2,892.00
Depreciable Capital Assets, Net	263,718,964.76	272,561.00
TOTAL ASSETS	$ 312,170,424.95	$ 1,321,321.00
LIABILITIES		
Payroll Deductions and Withholdings	$ 164,157.26	$
Wages Payable		61,104.00
Accounts Payable	1,299,863.41	55,122.00
Construction Contracts Payable - Retainage	765,214.89	
Deposits Payable	36,575.33	
Estimated Liability for Arbitrage Rebate	968,139.10	
Long-Term Liabilities:		
Portion Due Within One Year	13,773,161.63	
Portion Due After One Year	90,606,237.40	46,902.00
Total Liabilities	107,613,349.02	163,128.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	178,481,968.69	275,453.00
Restricted for:		
State Categorical Programs	146,396.24	
Debt Service	9,370,018.84	
Capital Projects	17,743,132.29	
Unrestricted	(1,184,440.13)	882,740.00
Total Net Assets	204,557,075.93	1,158,193.00
TOTAL LIABILITIES AND NET ASSETS	$ 312,170,424.95	$ 1,321,321.00

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 58,322,128.92	$ 16,492.00	$	$
Pupil Personnel Services	5,300,908.92			
Instructional Media Services	986,820.57			
Instruction and Curriculum Development Services	2,788,698.94			
Instructional Staff Training Services	1,457,880.98			
Instruction Related Technology	1,258,556.41			
Board of Education	835,663.36			
General Administration	922,471.70			
School Administration	5,397,130.18			
Facilities Acquisition and Construction	3,991,981.56			237,657.05
Fiscal Services	1,167,688.65			
Food Services	3,061,849.51	1,324,568.43	1,792,762.22	
Central Services	1,223,061.15			
Pupil Transportation Services	4,327,130.80		1,227,829.00	
Operation of Plant	8,423,864.78			
Maintenance of Plant	3,110,214.02			475,874.89
Administrative Technology Services	379,212.92			
Community Services	1,046,229.31	775,700.66		
Interest on Long-Term Debt	3,980,917.31			269,045.33
Unallocated Depreciation Expense	10,675,856.25			
Loss on Disposal of Capital Assets	4,627,628.49			
Total Primary Government	$ 123,285,894.73	$ 2,116,761.09	$ 3,020,591.22	$ 982,577.27
Component Units				
Charter Schools	$ 3,757,139.00	$ 123,402.00	$ 420,761.00	$ 136,750.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Units
$ (58,305,636.92)	$
(5,300,908.92)	
(986,820.57)	
(2,788,698.94)	
(1,457,880.98)	
(1,258,556.41)	
(835,663.36)	
(922,471.70)	
(5,397,130.18)	
(3,754,324.51)	
(1,167,688.65)	
55,481.14	
(1,223,061.15)	
(3,099,301.80)	
(8,423,864.78)	
(2,634,339.13)	
(379,212.92)	
(270,528.65)	
(3,711,871.98)	
(10,675,856.25)	
(4,627,628.49)	
(117,165,965.15)	
	(3,076,226.00)
62,829,966.90	
12,944,959.40	
11,611,511.84	
24,421,834.35	3,144,750.00
1,046,243.96	3,786.00
1,479,735.50	
114,334,251.95	3,148,536.00
(2,831,713.20)	72,310.00
207,388,789.13	1,085,883.00
$ 204,557,075.93	$ 1,158,193.00

MONROE COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash	$ 220,425.34	$ 51,346.21	$	$ 8,130,603.26
Investments	5,527,578.28			139,442.94
Accounts Receivable	26,539.00			
Prepaid Items	412,939.40			
Due from Other Funds	997,237.93			
Due from Other Agencies	383,491.00	691,507.79	11,692.41	
Restricted Investments				1,062,449.28
Inventories	14,095.04			
TOTAL ASSETS	$ 7,582,305.99	$ 742,854.00	$ 11,692.41	$ 9,332,495.48
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	$ 146,780.40	$ 10,535.65	$	$
Accounts Payable	380,965.63	51,370.91		
Construction Contracts Payable - Retainage				
Due to Other Funds		680,947.44	11,692.41	
Deposits Payable	36,575.33			
Estimated Liability for Arbitrage Rebate				
Total Liabilities	564,321.36	742,854.00	11,692.41	
Fund Balances:				
Reserved for State Categorical Programs	146,396.24			
Reserved for Encumbrances	547,273.79			
Reserved for Debt Service				9,332,495.48
Resereved for Inventories	14,095.04			
Unreserved, Reported in:				
General Fund	6,310,219.56			
Special Revenue Funds				
Capital Projects Funds				
Total Fund Balances	7,017,984.63			9,332,495.48
TOTAL LIABILITIES AND FUND BALANCES	$ 7,582,305.99	$ 742,854.00	$ 11,692.41	$ 9,332,495.48

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

Capital Projects - Capital Improvement Section 1011.71(2) Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 9,036,955.91	$ 8,158,454.41	$ 287,249.71	$ 25,885,034.84
188,863.73	925,137.65	37,523.36	6,818,545.96
			26,539.00
			412,939.40
			997,237.93
23,089.11	950,911.46	461,083.31	2,521,775.08
			1,062,449.28
		43,877.07	57,972.11
$ 9,248,908.75	$ 10,034,503.52	$ 829,733.45	$ 37,782,493.60
$	$	$ 6,841.21	$ 164,157.26
20,602.34	19,415.31	13,623.69	485,977.88
208,759.65	505,639.69	50,815.55	765,214.89
		304,598.08	997,237.93
			36,575.33
	968,139.10		968,139.10
229,361.99	1,493,194.10	375,878.53	3,417,302.39
			146,396.24
236,723.77	324,222.49	182,276.11	1,290,496.16
		37,523.36	9,370,018.84
		43,877.07	57,972.11
			6,310,219.56
		190,178.38	190,178.38
8,782,822.99	8,217,086.93		16,999,909.92
9,019,546.76	8,541,309.42	453,854.92	34,365,191.21
$ 9,248,908.75	$ 10,034,503.52	$ 829,733.45	$ 37,782,493.60

MONROE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances - Governmental Funds		$ 34,365,191.21
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.		270,330,874.09
Debt issuance costs are not expensed in government-wide financial statements, but are reported as deferred charges and are amortized over the life of the debt.		567,612.77
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:		
Bonds Payable	$ 71,685,000.00	
Certificates of Participation Payable	18,852,000.00	
Compensated Absences Payable	8,389,005.63	
Obligations Under Capital Leases	1,311,905.40	
Other Postemployment Benefits Payable	1,289,000.00	(101,526,911.03)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		820,308.89
Total Net Assets - Governmental Activities		$ 204,557,075.93

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

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MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 376,283.80	$ 1,599,978.77	$	$
Federal Through State and Local	761,244.22	5,620,160.46	11,692.41	
State	17,149,966.08			
Local:				
Property Taxes	62,829,966.90			
Local Sales Taxes				
Charges for Services - Food Service				
Miscellaneous	2,881,521.85			2,978.40
Total Revenues	83,998,982.85	7,220,139.23	11,692.41	2,978.40
Expenditures				
Current - Education:				
Instruction	53,522,964.55	4,042,679.10	11,692.41	
Pupil Personnel Services	4,347,804.32	881,407.17		
Instructional Media Services	970,476.43	3,009.95		
Instruction and Curriculum Development Services	1,732,377.84	1,019,781.38		
Instructional Staff Training Services	783,091.26	661,641.42		
Instruction Related Technology	1,227,623.12	13,014.83		
Board of Education	831,817.74			
General Administration	679,284.44	233,898.94		
School Administration	5,318,731.29			
Facilities Acquisition and Construction	323,944.77	76,568.27		
Fiscal Services	1,152,945.65			
Food Services	22,879.46			
Central Services	1,211,046.29			
Pupil Transportation Services	3,787,589.91	75,105.98		
Operation of Plant	8,367,523.54	4,698.73		
Maintenance of Plant	3,071,089.79			
Administrative Technology Services	369,173.32	4,385.00		
Community Services	1,036,970.09			
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	35,927.30	203,948.46		
Debt Service:				
Principal				10,450,000.00
Interest and Fiscal Charges	446,510.40			3,288,766.66
Total Expenditures	89,239,771.51	7,220,139.23	11,692.41	13,738,766.66
Excess (Deficiency) of Revenues Over Expenditures	(5,240,788.66)			(13,735,788.26)
Other Financing Sources (Uses)				
Transfers In	4,136,555.00			15,100,748.45
Insurance Loss Recoveries	39,139.96			
Transfers Out				
Total Other Financing Sources (Uses)	4,175,694.96			15,100,748.45
Net Change in Fund Balances	(1,065,093.70)			1,364,960.19
Fund Balances, Beginning	8,083,078.33			7,967,535.29
Fund Balances, Ending	$ 7,017,984.63	$ 0.00	$ 0.00	$ 9,332,495.48

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

Capital Projects - Capital Improvement Section 1011.71(2) Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$ 1,976,262.57
		1,753,746.22	8,146,843.31
		1,151,930.88	18,301,896.96
12,944,959.40			75,774,926.30
	11,611,511.84		11,611,511.84
		1,324,568.43	1,324,568.43
5,313.37	34,508.39	1,118.15	2,925,440.16
12,950,272.77	11,646,020.23	4,231,363.68	120,061,449.57
			57,577,336.06
			5,229,211.49
			973,486.38
			2,752,159.22
			1,444,732.68
			1,240,637.95
			831,817.74
			913,183.38
			5,318,731.29
1,935,041.19	1,541,054.73	472,564.00	4,349,172.96
			1,152,945.65
		3,015,904.06	3,038,783.52
			1,211,046.29
			3,862,695.89
			8,372,222.27
			3,071,089.79
			373,558.32
			1,036,970.09
1,730,810.15	1,931,076.63	119,719.16	3,781,605.94
			239,875.76
851,234.65	39,043.69	195,000.00	11,535,278.34
99,523.61	3,616.09	79,432.46	3,917,849.22
4,616,609.60	3,514,791.14	3,882,619.68	122,224,390.23
8,333,663.17	8,131,229.09	348,744.00	(2,162,940.66)
			19,237,303.45
			39,139.96
(6,618,078.45)	(12,484,528.00)	(134,697.00)	(19,237,303.45)
(6,618,078.45)	(12,484,528.00)	(134,697.00)	39,139.96
1,715,584.72	(4,353,298.91)	214,047.00	(2,123,800.70)
7,303,962.04	12,894,608.33	239,807.92	36,488,991.91
$ 9,019,546.76	$ 8,541,309.42	$ 453,854.92	$ 34,365,191.21

MONROE 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, 2009

Net Change in Fund Balances - Governmental Funds		$ (2,123,800.70)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period.		(6,149,481.32)
In the governmental funds, the cost of capital assets is recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the undepreciated cost of the disposed assets.		(5,555,703.48)
Donated capital assets increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds.		3,060.60
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period.		
Certificates of Participation	$ 1,680,000.00	
Bonds Payable	8,965,000.00	
Capital Lease	890,277.14	11,535,277.14
Deferred charges associated with long-term debt issued in the current period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current period.		
Deferred Charges, June 30, 2009	$ 567,612.77	
Deferred Charges, June 30, 2008	(630,680.86)	(63,068.09)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current period.		457,410.65
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(1,289,000.00)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.		353,592.00
Change in Net Assets - Governmental Activities		$ (2,831,713.20)

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	4,308,591.04
Investments		10.41
Accounts Receivable		4,178.39
Due From Other Agencies		65,787.14
Total Current Assets		4,378,566.98
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		108,115.44
TOTAL ASSETS	$	4,486,682.42
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	813,885.53
Estimated Insurance Claims Payable		1,499,546.00
Total Current Liabilities		2,313,431.53
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		1,352,942.00
Total Liabilities		3,666,373.53
NET ASSETS		
Unrestricted		820,308.89
TOTAL LIABILITIES AND NET ASSETS	$	4,486,682.42

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Contributions	$ 12,521,793.16
Insurance Loss Recoveries	308,917.46
Other Operating Revenues	7,331.85
Total Operating Revenues	12,838,042.47
OPERATING EXPENSES	
Salaries	168,490.00
Employee Benefits	878,233.78
Purchased Services	1,463,511.34
Materials and Supplies	1,786.11
Capital Outlay	99.99
Insurance Claims	9,974,696.92
Total Operating Expenses	12,486,818.14
Operating Income	351,224.33
NONOPERATING REVENUES	
Interest	2,367.67
Loss Before Transfers	353,592.00
Transfers In	1,430,000.00
Transfers Out	(1,430,000.00)
Change in Net Assets	353,592.00
Total Net Assets - Beginning	466,716.89
Total Net Assets - Ending	$ 820,308.89

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	$ 12,457,346.89
Cash Received from Insurance Loss Recoveries	308,917.46
Cash Received from Other Operating Revenues	6,805.50
Cash Payments to Employees for Services	(1,046,723.78)
Cash Payments to Suppliers for Goods and Services	(1,428,874.19)
Cash Payments for Insurance Claims	(11,760,862.92)
Net Cash Used by Operating Activities	(1,463,391.04)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	27,764.74
Interest Income	2,367.67
Net Cash Provided by Investing Activities	30,132.41
Net Decrease in Cash and Cash Equivalents	(1,433,258.63)
Cash and Cash Equivalents, Beginning	5,741,849.67
Cash and Cash Equivalents, Ending	$ 4,308,591.04
Reconciliation of Operating Income to Net Cash Used by Operating Activities:	
Operating Income	$ 351,224.33
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(526.35)
Increase in Due from Other Agencies	(64,446.27)
Increase in Accounts Payable	36,523.25
Decrease in Estimated Insurance Claims Payable	(1,786,166.00)
Total Adjustments	(1,814,615.37)
Net Cash Used by Operating Activities	$ (1,463,391.04)

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2009

	Pension Trust Fund	Agency Funds
ASSETS		
Cash	$ 174,120.15	$ $1,201,583.00
Investments	7,729.18	
TOTAL ASSETS	$ 181,849.33	$ 1,201,583.00
LIABILITIES		
Internal Accounts Payable	$	$ 1,201,583.00
NET ASSETS		
Assets Held in Trust for Pension Benefits	181,849.33	
TOTAL LIABILITIES AND NET ASSETS	$ 181,849.33	

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2009

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	$ 63,976.00
Investment Earnings:	
Interest	10.75
Total Additions	63,986.75
DEDUCTIONS	
Benefits Paid to Participants	47,283.00
Purchased Services	2,500.00
Other Expenses	12.00
Total Deductions	49,795.00
Change in Net Assets	14,191.75
Net Assets - Beginning	167,657.58
Net Assets - Ending	$ 181,849.33

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 Monroe County School District is considered part of the Florida system of public education. The governing body of the school district is the Monroe 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 Monroe County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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 Monroe 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 Monroe 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 Units. The component units columns in the government-wide financial statements include the financial data of the District's other component units.

  The District entered into charters with each of its charter schools. The charter schools are the Montessori Elementary Charter School, Inc.; the Montessori Island Charter School, Inc., d/b/a Treasure Village Montessori School; and Big Pine Elementary Academy, Inc. The charter schools are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, The Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.

  The core philosophy and purpose of the Montessori Elementary Charter School, Inc., is to provide educational services to students in grades one through six, in a nurturing environment, to the economically and culturally diverse children of Monroe County, through an approach that is child-centered and community-oriented, and which emphasizes a uniquely prepared and individualized educational plan for each student.

  The core philosophy and purpose of the Treasure Village Montessori School, is to provide educational services in a nurturing environment to the children of Monroe County, in grades pre-kindergarten through seven. Through a uniquely prepared environment and the use of special didactic materials, the students progress through individual educational programs following their own interests to become creative thinkers.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

The mission of the Big Pine Elementary Academy, Inc., is to provide students in grades prekindergarten through six with a safe and nurturing school environment and an enriching and challenging mastery learning curriculum containing the skills, content knowledge, and character development for quality and equity student outcomes, and to help students to become successful life-long learners and responsive informed students in the 21st century.

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2009. The annual reports are 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 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 function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

- Special Revenue – Other Fund – to account for certain Federal grant program resources.

- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

- Debt Service – Other Fund – to account for debt service related to construction borrowings.
- Capital Projects – Capital Improvement Section 1011.71(2) 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, debt service payments on capital leases, and payment of costs of leasing relocatable school buildings.
- Capital Projects – Other Fund – to account for financial resources earmarked for capital projects, generated by all sources not required to be reported in any other fund. Examples of resources include: local sales tax, certificates of participation, and Federal Emergency Management Agency proceeds.

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

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

funds are Board contributions for premium revenues of the property casualty, workers' compensation, and group medical self-insurance programs and charges for self-insurance premiums for dependent and retiree coverage. The principal operating expenses include salaries and benefits, purchased services, and insurance claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The charter schools, shown as discretely presented component units, are accounted for as governmental organizations and follow 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, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in the State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys; amounts placed with SBA for participation in the Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME, and the Fund B Surplus Funds Trust Fund (Fund B) that are investment pools created by Sections 218.405 and 218.417, Florida Statutes; and those made locally. The LGIP and Fund B investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

Investments made locally consist of Federal National Mortgage Association (FNMA) discount notes, a master repurchase agreement, money market funds, and certificates of deposit and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Inventories**

Inventories consist of purchased food and surplus commodities of the food service program and fuel for the District's vehicles which are held for consumption in the course of District operations. Inventories are stated at cost, 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 weighted-average method is used in pricing the fuel inventory. The first-in,

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

first-out method is used in pricing the Special Revenue Funds purchased food and surplus commodities inventory. The costs of inventories are recorded as expenditures when used rather than purchased. Although the costs of inventories are recorded as expenditures when used rather than purchased, inventory balances are offset by a fund balance reserve in applicable governmental funds to indicate these balances do not constitute available expendable resources, even though they are a component of current assets.

- **Capital Assets**

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

Interest cost 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:

Description	Estimated Lives
Improvements Other than Buildings	15 years
Buildings and Fixed Equipment	50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Property Under Capital Leases	3 years
Audio Visual Materials and Computer Software	3 - 5 years

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

- **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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 is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

- **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 23, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Monroe 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.

- **Capital Outlay Surtax**

  On August 31, 2004, the citizens of Monroe County approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2006. The surtax proceeds are to be used to replace portable classrooms, for the renovation, rebuilding, or remodeling of District school structures that were built before 1978, for real estate acquisitions, and for technology upgrades, in accordance with Section 212.055(6), Florida Statutes.

- **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, except that no budget appropriation is made for capital leases in the year of inception.
- 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.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP)	46 Day Average	$ 13,412.67
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	1,088,825.14
Debt Service Accounts	6 Months	37,523.36
Florida Keys First State Bank		
Master Repurchase Agreement	January 2010	5,000,000.00
Fidelity Institutional Money Market		
Fund - Treasury Portfolio (1)	60 Day or Less Weighted Average	286,799.29
Federal National Mortgage Association (FNMA)		
Discount Notes (1)	July 1, 2009	1,060,830.05
Certificates of Deposit	October 2009 and November 2009	509,459.76
Total Investments		$ 7,996,850.27

Note: (1) A portion ($1,062,449.28) of these investments are held by a paying agent in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 7).

Interest Rate Risk

- The District's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The policy limits current short-term funds investments to a maximum of one year, and investments of bond reserves, construction moneys, and other core funds to a term appropriate to the need for moneys and in accordance with debt covenants, but not to exceed three years.
- LGIP has a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Credit Risk

- The District's investment policy authorizes investing in LGIP, or any intergovernmental pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds; interest-bearing time deposits or saving accounts; United States Government Securities; securities of, or other interest in, an open-ended or closed-ended management type investment company or investments trust registered under the Investment Company Act of 1940; and other investments as authorized by law and not prohibited by the investment policy.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.
- The Fidelity Institutional Money Market Fund – Treasury Portfolio normally invests at least 80 percent of assets in United States Treasury securities and repurchase agreements for those securities. As of June 30, 2009, the District's investments in the Fidelity Institutional Money Market Fund – Treasury Portfolio are rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.
- FNMA discount notes are senior unsecured debt of Fannie Mae and are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's investment in a repurchase agreement is collateralized by FNMA discount notes and unrated. This investment is not authorized by the District's investment policy.
- The District's $509,459.76 investment in certificates of deposit is held in the District's certificate of deposit account at a local credit union and is insured by the National Credit Union Association with an insured combined accounts limit of $250,000. This investment is not authorized by the District's investment policy or by Section 280.03, Florida Statutes.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy addresses custodial credit risk in that all securities, with the exception of certificates of deposit, shall be held with a third-party custodian; and all securities purchased by and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

- The District entered into a Master Repurchase Agreement with the First State Bank of the Florida Keys. As of June 30, 2009, $5,000,000 is invested at a rate of 2.4 percent, with a repurchase date of January 30, 2010. Under the terms of the agreement, collateral is held for the repurchase agreement at a third-party bank. Eligible collateral is limited to United States Government and Federal Agency Securities, municipal bonds of an investment grade or better, and corporate bonds of an investment grade or better.

Concentration of Credit Risk

- The District's investment policy limits investments, which are subject to concentration of credit risk, to a maximum of ten percent of available moneys. This policy does not apply to pension moneys, trust funds, and debt proceeds where there are other existing policies, resolutions, or indentures in effect for the investment of such moneys. Moneys held by State agencies (e.g., Florida Department of Education) are also not subject to the provisions of this policy.
- The District's investments in a repurchase agreement, collateralized by FNMA discount notes, represent 63 percent of the District's total investments and 90 percent of the investments in the General Fund. These investments are not in compliance with the District's investment policy on concentration risk.
- The District's investments in FNMA discount notes are 13 percent of the District's total investments and 88 percent of the investments in the Debt Service – Other Fund. These investments are made pursuant to agreements with the Qualified Zone Academy Bonds paying agents (see Note 7).

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 6,611,909.33	$	$	$ 6,611,909.33
Construction in Progress	81,282,761.82	2,334,125.30	83,616,887.12	
Total Capital Assets Not Being Depreciated	87,894,671.15	2,334,125.30	83,616,887.12	6,611,909.33
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	12,379,953.68	218,472.83		12,598,426.51
Buildings and Fixed Equipment	212,385,718.71	83,849,638.77	12,376,256.00	283,859,101.48
Furniture, Fixtures, and Equipment	18,095,320.28	1,612,376.63	1,614,761.80	18,092,935.11
Motor Vehicles	7,317,536.06	519,747.00	501,131.37	7,336,151.69
Property Under Capital Leases	4,177,910.16		928,074.99	3,249,835.17
Audio Visual Materials and Computer Software	3,984,207.06	35,683.88	135,569.18	3,884,321.76
Total Capital Assets Being Depreciated	258,340,645.95	86,235,919.11	15,555,793.34	329,020,771.72
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	6,454,962.72	646,973.63		7,101,936.35
Buildings and Fixed Equipment	36,387,696.30	7,341,958.02	7,748,627.51	35,981,026.81
Furniture, Fixtures, and Equipment	11,715,789.84	2,174,791.66	686,686.81	13,203,894.69
Motor Vehicles	3,611,389.56	599,606.54	501,131.37	3,709,864.73
Property Under Capital Leases	2,317,083.53	275,471.00	928,074.99	1,664,479.54
Audio Visual Materials and Computer Software	3,715,396.86	60,777.16	135,569.18	3,640,604.84
Total Accumulated Depreciation	64,202,318.81	11,099,578.01	10,000,089.86	65,301,806.96
Total Capital Assets Being Depreciated, Net	194,138,327.14	75,136,341.10	5,555,703.48	263,718,964.76
Governmental Activities Capital Assets, Net	$282,032,998.29	$ 77,470,466.40	$ 89,172,590.60	$270,330,874.09

The class of property under capital leases is presented in Note 6.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 423,721.76
Unallocated	10,675,856.25
Total Depreciation Expense - Governmental Activities	$ 11,099,578.01

5. CHANGES IN SHORT-TERM DEBT

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

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note, Series 2008	$ 0	$ 16,000,000	$ 16,000,000	$ 0

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

6. OBLIGATION UNDER CAPITAL LEASES

The class and amount of property being acquired under capital leases is as follows:

	Asset Balance
Data Processing Equipment	$ 3,249,835.17

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follow:

Fiscal Year Ending June 30	Total	Principal	Interest
2010	$ 726,136.69	$ 668,694.68	$ 57,442.01
2011	584,166.00	556,859.47	27,306.53
2012	90,017.16	86,351.25	3,665.91
Total Minimum Lease Payments	$ 1,400,319.85	$ 1,311,905.40	$ 88,414.45

7. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on October 15, 1996, which arrangement was characterized as a lease-purchase agreement, with the Monroe School Board Leasing Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of $28,000,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1996A, to be repaid from the proceeds of rents paid by the District.

On June 30, 2004, the District advance-refunded the Certificates of Participation, Series 1996A, maturing after August 1, 2006, through the issuance of Certificates of Participation, Series 2004A, with a total value of $18,170,000, to be paid from the proceeds of rents paid by the District. The proceeds of the Series 2004A Certificates were deposited in an escrow fund with a trustee and be invested in certain qualified governmental obligations. The amounts deposited plus interest earnings were sufficient to pay the interest portions on February 1 and August 1 each year, and pay the outstanding principal portions ($16,380,000) of the Series 1996A Certificates maturing after August 1, 2006 (the "Refunded Series 1996A Certificates") at a price of 102 percent of the principal amount.

On December 29, 2005, the master financing arrangement was amended and the Corporation issued Certificates of Participation, Qualified Zone Academy Bonds (QZAB), Series 2005, in the amount of $4,842,000 for HVAC, electrical and general facility improvements at several District properties. Under the terms of the lease agreement, the District is required to make ten annual payments of $341,007.95 each, which are deposited with a trustee and invested in accordance with a security delivery agreement until maturity and, when combined with interest earnings, will be sufficient to pay off the principal balance in full, at maturity on December 29, 2020.

As a condition of the financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of $1 per year. The initial term of the lease is 25 years commencing on October 15, 1996, and ending August 1, 2021. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up to 30 years from the date of inception of the arrangement.

The District properties included in the ground lease under this arrangement are as follows:

Gerald Adams Elementary School

Stanley Switlik Elementary School

Sugarloaf Middle School

Horace O'Bryant Middle School

Glynn Archer Elementary School

Marathon High School

Except for the QZAB, Series 2005 issue, which fully matures on December 29, 2020, with interest paid by the Federal government in the form of annual tax credits to the holders of the certificates, the lease payments are payable by the District, semiannually, on payment dates and interest rates ranging as follows:

Certificates	Payment Dates	Interest Rates
Series 2004A	February 1 and August 1	3.75 to 4.5

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:

Fiscal Year Ending June 30	Total	Principal	Interest
2010	$ 2,266,643.75	$ 1,735,000.00	$ 531,643.75
2011	2,264,050.00	1,810,000.00	454,050.00
2012	2,259,250.00	1,880,000.00	379,250.00
2013	2,258,612.50	1,950,000.00	308,612.50
2014	2,256,550.00	2,025,000.00	231,550.00
2015-2019	4,825,937.50	4,610,000.00	215,937.50
2020-2021	4,842,000.00	4,842,000.00	
Total Minimum Lease Payments	$ 20,973,043.75	$ 18,852,000.00	$2,121,043.75

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

8. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	$ 1,270,000	4.000 - 5.375	2015
Series 2005A, Refunding	150,000	5.0	2017
District Sales Tax Revenue Bonds:			
Series 2005	53,775,000	2.875 - 5.000	2015
Series 2007	16,490,000	3.98	2015
Total Bonds Payable	$ 71,685,000		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

- **State School Bonds**

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

- **District Sales Tax Revenue Bonds**

  These bonds are authorized by the Constitution and Laws of the State of Florida, particularly Chapter 1001, Florida Statutes, Chapter 212, Florida Statutes, and other applicable provisions of law. As provided for in the Sales Tax Revenue Bond Resolution (Master Resolution) adopted by the Board on May 5, 2005, the Bonds are secured by a pledge (Pledged Funds) of the proceeds received by the District from the levy and collection of a one-half cent discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and all moneys including investments thereof in the funds and accounts established pursuant to the bond resolution other than the Unrestricted Revenue Account and the Rebate Fund. The bonds were issued for the purpose of financing the costs of acquisition, construction, and installation of certain capital improvements and educational facilities.

  The School Board issued Sales Tax Revenue Bonds, Series 2005 on June 14, 2005, totaling $75,000,000. On May 14, 2007, as provided for in the Master Resolution, the Board issued Subordinated Sales Tax Revenue Bond, Series 2007 totaling $20,500,000. The Subordinated Sales Tax Revenue Bond, Series 2007 is secured by a pledge of the Pledged Funds (as defined in the Master Resolution) on a subordinated basis to the pledge of a lien on the Pledge Funds established

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

by the Master Resolution for the payment of Bonds, including the Sales Tax Revenue Bonds, Series 2005.

The District has pledged a combined total of $79,966,011.80 of discretionary surtax sales revenues (sales tax revenues) in connection with the Sales Tax Revenue Bonds, Series 2005, described above. During the 2008-09 fiscal year, the District recognized sales tax revenues totaling $11,611,511.84 and expended $11,454,528.13 (98.6 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on October 1, 2015. Assuming a nominal growth rate of 3.1 percent in the collection of sales tax revenues, which are levied through December 31, 2015, approximately 98.8 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	$ 271,943.75	$ 200,000.00	$ 71,943.75
2011	271,268.75	210,000.00	61,268.75
2012	270,037.50	220,000.00	50,037.50
2013	276,087.50	235,000.00	41,087.50
2014	278,512.50	250,000.00	28,512.50
2015-2017	322,400.00	305,000.00	17,400.00
Total State School Bonds	1,690,250.00	1,420,000.00	270,250.00
District Sales Tax Revenue Bonds:			
2010	11,444,433.25	9,050,000.00	2,394,433.25
2011	11,443,628.38	9,355,000.00	2,088,628.38
2012	11,439,335.26	9,670,000.00	1,769,335.26
2013	11,421,381.01	9,995,000.00	1,426,381.01
2014	11,419,526.01	10,355,000.00	1,064,526.01
2015-2016	22,797,707.89	21,840,000.00	957,707.89
Total District Sales Tax Revenue Bonds	79,966,011.80	70,265,000.00	9,701,011.80
Total	$ 81,656,261.80	$ 71,685,000.00	$ 9,971,261.80

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

9. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	$ 4,638,654.00	$ 8,188,530.92	$ 9,974,696.92	$ 2,852,488.00	$ 1,499,546.00
Obligations Under Capital Leases	2,202,182.54		890,277.14	1,311,905.40	668,694.68
Bonds Payable	80,650,000.00		8,965,000.00	71,685,000.00	9,250,000.00
Certificates of Participation Payable	20,532,000.00		1,680,000.00	18,852,000.00	1,735,000.00
Compensated Absences Payable	8,846,416.28	188,043.17	645,453.82	8,389,005.63	619,920.95
Other Postemployment Benefits Payable		2,132,000.00	843,000.00	1,289,000.00	
Total Governmental Activities	$ 116,869,252.82	$ 10,508,574.09	$ 22,998,427.88	$ 104,379,399.03	$ 13,773,161.63

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as discussed in Notes 17 and 18.

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	Interfund Payables
Major:		
General	$ 997,237.93	$
Special Revenue:		
Other		680,947.44
AARA Economic Stimulus		11,692.41
Nonmajor Governmental		304,598.08
Total	$ 997,237.93	$ 997,237.93

The amount due to the General Fund from the Special Revenue – Other Fund and the Special Revenue – AARA Economic Stimulus Fund is to finance authorized activities of grants and contracts which are financed on a cost reimbursement basis. The amount due to the General Fund from the nonmajor governmental funds is for money advanced to the Special Revenue – Food Service Fund to finance the District's food service program, and for transferred expenditures of the Capital Projects – Public Education Capital Outlay Fund.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 4,136,555.00	$
Debt Service:		
Other	15,100,748.45	
Capital Projects:		
Capital Improvement Section 1011.71(2)		6,618,078.45
Other		12,484,528.00
Nonmajor Governmental		134,697.00
Internal Service	1,430,000.00	1,430,000.00
Total	$ 20,667,303.45	$ 20,667,303.45

Interfund transfers represent permanent transfers of moneys between funds. The transfers out of the Capital Projects – Capital Improvement Section 1011.72(2) Fund to the General Fund were to reimburse the General Fund for allowable capital and property casualty insurance expenditures recorded in the General Fund. Additionally, funds were transferred from the Capital Projects - Other Funds to the Debt Service – Other Fund to make debt service payments for the Certificates of Participation and the Sales Tax Revenue Bonds. The transfer within the internal service funds was to provide funding for the District's self-insurance program for workers' compensation insurance.

11. 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 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

Because revenues of grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total $332,320.94 at June 30, 2009.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2008-09 fiscal year:

Source	Amount
Categorical Educational Programs:	
Class Size Reduction	$ 8,332,927.00
Transportation	1,227,829.00
Instructional Materials	777,377.00
School Recognition	549,906.00
Voluntary Prekindergarten	529,787.27
Excellent Teaching	228,646.60
Florida Teachers Lead	110,180.00
Florida Education Finance Program	3,579,894.00
Workforce Development Program	875,818.00
Gross Receipts Tax (Public Education Capital Outlay)	792,848.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	324,426.27
Discretionary Lottery Funds	198,575.00
Diagnostic and Learning Resources Centers	181,000.00
Adults with Disabilities	85,290.00
Food Service Supplement	39,016.00
Mobile Home License Tax	31,893.40
Miscellaneous	436,483.42
Total	$ 18,301,896.96

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	1.394	$ 37,240,757
Basic Discretionary Local Effort	0.498	13,304,086
Supplemental Discretionary Local Effort	0.030	801,451
Voted Tax:		
Additional Operating	0.500	13,357,517
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.500	13,357,517
Total	2.922	$ 78,061,328

14. FLORIDA RETIREMENT SYSTEM

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

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

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 184 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled $760,639.20.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	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
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled $5,303,561.33, $5,449,646.05, and $5,438,030.54, respectively, which were equal to the required contributions for each fiscal year.

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

15. EARLY RETIREMENT PLAN

Plan Description. As authorized by Section 1012.685, Florida Statutes, the Board implemented an early retirement plan (Plan) effective July 1, 1992. The Plan is a single-employer public employee retirement system (PERS) and was offered for only one year. The purpose of the Plan was to provide eligible District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 14, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62. The Board administers Plan assets in a pension trust fund and is responsible for their investment. The Board appoints and removes the Plan Administrator.

A summary of Eligibility and Benefits follows:

- **Eligibility**. All full-time United Teachers of Monroe bargaining unit members or administrative support personnel who were members of the Florida Retirement System (FRS) or the Teachers Retirement System (TRS) and who had attained the age of 55 as of August 1, 1992, completed 25 or more years of creditable service as determined by FRS or TRS, and have made application for benefits on or before June 10, 1992.

- **Benefits**. The amount of early payment reduction in monthly benefits from FRS or TRS as a consequence of early retirement.

As of June 30, 2009, there were nine retirees and their beneficiaries receiving benefits under the Plan. There are no current employees eligible to participate in the Plan.

Summary of Significant Accounting Policies. Significant accounting policies related to basis of accounting and method of asset valuation are disclosed in Note 1. Investment disclosures related to the pension trust fund are in Note 3.

Contributions and Reserves. The Plan was established by the Board on July 1, 1992, and may be amended by Board action. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the Plan and to amortize the unfunded actuarial accrued liability within nine years based on the July 1, 2008, actuarial study.

Periodic employer contributions to the Plan are determined on an actuarial basis using the entry age actuarial cost method. Under this method, the cost of each participant's projected retirement benefits is funded through a series of annual payments, determined as a level of percentage of each year's earnings, from age at hire to assumed exit age. This level percentage is known as normal cost. Normal cost is funded on a current basis. The unfunded pension benefit obligation is amortized over the remaining nine-year period, through annual contributions expressed as a level dollar amount.

Significant actuarial assumptions used to compute pension contributions requirements are the same as those used to determine the standardized measure of the pension obligation.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Total contributions to the Plan in the 2008-09 fiscal year amounted to $63,976, all of which was paid by the Board and were made in accordance with actuarially determined contribution requirement determined through an actuarial valuation performed as of July 1, 2007.

The computation of the annual required contributions for the 2008-09 fiscal year was based on the same: (a) actuarial assumptions, (b) benefit provisions, (c) actuarial funding method, and (d) other significant factors as used to determine annual required contributions in the previous year.

All of the assets in the District's pension trust fund are legally required reserves. None of the assets have been designated by the Board for any other specific purpose. Costs of administering the Plan are financed through the Plan's resources (employer contributions and investment earnings).

Funded Status and Funding Progress.

The required schedule of funding progress, immediately following the notes to the financial statements, presents multiyear trend information about whether the actual value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Information about the funded status of the Plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	$ 181,849.33	$ 596,184	$ 414,335	30.5%	(1)	(1)

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	7-1-08
Actuarial Cost Method	Not Applicable (No active working participants)
Amortization Method	Level Dollar, closed period
Remaining Amortization Period	8 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return*	5.0%
Cost-of-Living Adjustments	3.0%
*Includes Inflation at	3.5%

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

16. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of $24,961,000 at the July 1, 2008, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the other postemployment benefits liability at the date of transition.

Plan Description. The Other Postemployment Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's healthcare and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, the District contributes a portion of the premium cost for retiree healthcare coverage. The amounts contributed are determined annually by Board action. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Other Postemployment Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District and plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 122 retirees received OPEB. The District provided required contributions of $843,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of excess insurance), administrative expenses, and excess insurance premiums, and net of retiree contributions totaling $596,729.40, which represents 1 percent of covered payroll.

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Description	Amount
Normal Cost (service cost for one year)	$ 1,087,000
Amortization of Unfunded Actuarial Accrued Liability	996,000
Interest on Normal Cost and Amortization	49,000
Annual Required Contribution	2,132,000
Contribution Toward the OPEB Cost	(843,000)
Increase in Net OPEB Obligation	1,289,000
Net OPEB Obligation, Beginning of Year	
Net OPEB Obligation, End of Year	$ 1,289,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2009 (year of implementation), were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	$		$ 0
2008-09	2,132,000	39.5%	1,289,000

Funded Status and Funding Progress. As of July 1, 2008, the most recent valuation date, the actuarial accrued liability for benefits was $24,961,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $24,961,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $59,183,345.72 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 42.2 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's initial OPEB actuarial valuation as of July 1, 2008, used the projected unit credit cost method to estimate the unfunded actuarial liability as of July 1, 2008, and to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent annual discount rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 11 percent initially for the 2008-09 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after 12 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

17. 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. Property casualty, including workers' compensation coverage and group medical insurance for its employees, retirees, and their dependents is being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

Under the Plan for property casualty, including workers' compensation, the District's liability is limited to various per occurrence amounts ranging between $25,000 and $10,000,000 depending on the type of peril coverage. The District's commercial property insurance for wind damage provides for coverage up to $5,000,000 per named windstorm after a deductible of 5 percent of total insured values per location subject to a minimum of $10,000,000 per occurrence.

The plan for group medical insurance provides that the District contributes premiums as a fringe benefit to employees. The District also contributes for dependents coverage for several administrative employees. Dependent coverage for other employees and coverage for retirees and their dependents is by prepaid premium. Liability under the group medical plan is limited to $250,000 annually for each person. Maximum reimbursements for aggregate individual losses exceeding $250,000 are limited to $1,000,000, per one year policy period and an individual lifetime reimbursement maximum of $4,750,000. Liability in excess of the limitations of the property casualty, including workers' compensation, and group medical programs, is covered under various insurance policies purchased by the District.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2007-08	$ 4,638,654.00	$ 13,062,939.57	$ (13,062,939.57)	$ 4,638,654.00
2008-09	4,638,654.00	9,974,696.92	(11,760,862.92)	2,852,488.00

18. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2008-09 fiscal year:

	Total	Workers' Compensation/ General Liability	VISTA Insurance	Health Insurance
Total Assets	$ 4,486,682.42	$ 2,293,981.74	$	$ 2,192,700.68
Liabilities and Net Assets:				
Accounts Payable	$ 813,885.53	$	$	$ 813,885.53
Estimated Insurance Claims Payable	2,852,488.00	2,141,460.00		711,028.00
Net Assets:				
Unrestricted Net Assets	820,308.89	152,521.74		667,787.15
Total Liabilities and Net Assets	$ 4,486,682.42	$ 2,293,981.74	$	$ 2,192,700.68
Revenues:				
Premium Contributions	$ 12,521,793.16	$ 452,542.20	$ 860,387.12	$ 11,208,863.84
Insurance Loss Recoveries	308,917.46	225,453.33		83,464.13
Interest	2,367.67	204.35		2,163.32
Other Operating Revenues	7,331.85			7,331.85
Total Revenues	12,840,410.14	678,199.88	860,387.12	11,301,823.14
Total Expenses	(12,486,818.14)	(2,237,088.52)	(860,387.12)	(9,389,342.50)
Transfers In (Out)		1,430,000.00		(1,430,000.00)
Change in Net Assets	$ 353,592.00	$ (128,888.64)	$ 0.00	$ 482,480.64

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

19. LITIGATION

The District is involved in litigation with a contractor seeking liquidated damages. The District is contesting this matter and believes an unfavorable outcome is unlikely; however, should it be unsuccessful the District estimates a potential loss ranging from $0 to $1,500,000. In addition, the District is involved in several other pending and threatened legal actions. In the opinion of District management, the range of potential loss from these other claims and actions should not materially affect the financial condition of the District.

20. SUBSEQUENT EVENTS

On September 9, 2009, the District issued a Tax Anticipation Note, Series 2009, in the principal amount of $12,500,000. In addition, on March 23, 2010, the Board approved issuance of $36 million Certificates of Participation, Series 2010A, Qualified School Construction Bonds.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

MONROE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 375,833.00	$ 376,283.80	$ 376,283.80	$
Federal Through State and Local	549,210.00	761,244.22	761,244.22	
State	17,494,135.00	17,149,966.08	17,149,966.08	
Local:				
Property Taxes	62,996,817.00	62,829,966.90	62,829,966.90	
Miscellaneous	2,942,143.00	2,881,521.85	2,881,521.85	
Total Revenues	84,358,138.00	83,998,982.85	83,998,982.85	
Expenditures				
Current - Education:				
Instruction	55,250,572.01	53,522,964.55	53,522,964.55	
Pupil Personnel Services	3,940,203.71	4,347,804.32	4,347,804.32	
Instructional Media Services	802,031.88	970,476.43	970,476.43	
Instruction and Curriculum Development Services	1,857,850.12	1,732,377.84	1,732,377.84	
Instructional Staff Training Services	860,596.82	783,091.26	783,091.26	
Instruction Related Technology	1,206,055.04	1,227,623.12	1,227,623.12	
Board of Education	821,161.91	831,817.74	831,817.74	
General Administration	759,132.95	679,284.44	679,284.44	
School Administration	5,470,166.50	5,318,731.29	5,318,731.29	
Facilities Acquisition and Construction		323,944.77	323,944.77	
Fiscal Services	1,120,018.43	1,152,945.65	1,152,945.65	
Food Services		22,879.46	22,879.46	
Central Services	2,066,975.54	1,211,046.29	1,211,046.29	
Pupil Transportation Services	3,906,941.11	3,787,589.91	3,787,589.91	
Operation of Plant	8,169,873.10	8,367,523.54	8,367,523.54	
Maintenance of Plant	2,622,501.57	3,071,089.79	3,071,089.79	
Administrative Technology Services	373,337.48	369,173.32	369,173.32	
Community Services	883,206.28	1,036,970.09	1,036,970.09	
Fixed Capital Outlay:				
Other Capital Outlay		35,927.30	35,927.30	
Debt Service:				
Interest and Fiscal Charges	330,000.00	446,510.40	446,510.40	
Total Expenditures	90,440,624.45	89,239,771.51	89,239,771.51	
Deficiency of Revenues Under Expenditures	(6,082,486.45)	(5,240,788.66)	(5,240,788.66)	
Other Financing Sources (Uses)				
Transfers In	4,001,858.00	4,136,555.00	4,136,555.00	
Insurance Loss Recoveries		39,139.96	39,139.96	
Transfers Out	(50,000.00)			
Total Other Financing Sources (Uses)	3,951,858.00	4,175,694.96	4,175,694.96	
Net Change in Fund Balances	(2,130,628.45)	(1,065,093.70)	(1,065,093.70)	
Fund Balances, Beginning	8,083,078.33	8,083,078.33	8,083,078.33	
Fund Balances, Ending	$ 5,952,449.88	$ 7,017,984.63	$ 7,017,984.63	$ 0.00

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 1,381,899.42	$ 1,740,246.38	$ 1,599,978.77	$ (140,267.61)	$	$	$	$
4,837,309.00	7,433,391.04	5,620,160.46	(1,813,230.58)		11,692.41	11,692.41	
6,219,208.42	9,173,637.42	7,220,139.23	(1,953,498.19)		11,692.41	11,692.41	
3,563,482.73	5,268,155.47	4,042,679.10	1,225,476.37		11,692.41	11,692.41	
914,270.82	1,074,581.39	881,407.17	193,174.22				
	3,715.27	3,009.95	705.32				
987,570.52	1,137,209.01	1,019,781.38	117,427.63				
403,000.22	941,321.90	661,641.42	279,680.48				
	13,014.83	13,014.83					
185,319.57	291,117.05	233,898.94	57,218.11				
	76,568.27	76,568.27					
149,736.80	147,190.58	75,105.98	72,084.60				
15,827.76	12,416.64	4,698.73	7,717.91				
	4,398.55	4,385.00					
			13.55				
	203,948.46	203,948.46					
6,219,208.42	9,173,637.42	7,220,139.23	1,953,498.19		11,692.41	11,692.41	
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	$ 0	$ 24,961,000	$ 24,961,000	0.0%	$59,183,345.72	42.2%

MONROE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS - EARLY RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2003	$ 128,487.00	$ 480,597.00	$ 352,110.00	26.7%	(1)	(1)
July 1, 2004	131,981.00	480,604.00	348,623.00	27.5%	(1)	(1)
July 1, 2005	139,736.00	469,988.00	330,252.00	29.7%	(1)	(1)
July 1, 2006	149,739.00	612,594.00	462,855.00	24.4%	(1)	(1)
July 1, 2007	167,658.00	596,184.00	428,526.00	28.1%	(1)	(1)
July 1, 2008	181,849.33	596,184.00	414,334.67	30.5%	(1)	(1)

Note: (1) The Covered Payroll and Actuarial Accrued Liability as a Percentage of Covered Payroll columns are not presented because all participants in the Plan are retired.

MONROE COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER CONTRIBUTIONS
EARLY RETIREMENT PLAN

Year Ended June 30	Annual Required Contribution	Percentage Contribution
2004	$ 47,252	100.0%
2005	47,252	100.0%
2006	51,796	100.0%
2007	51,796	100.0%
2008	65,066	100.0%
2009	65,066	98.3%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	$ 282,838.47
National School Lunch Program	10.555	300	1,207,005.24
Summer Food Service Program for Children	10.559	323	82,248.83
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	181,653.68
Total United States Department of Agriculture			1,753,746.22
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	229,680.67
Fund for the Improvement of Education	84.215	N/A	369,639.32
Total Direct			599,319.99
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,823,617.18
Special Education - Preschool Grants	84.173	267	56,830.57
University of South Florida:			
Special Education - Grants to States	84.027	None	78,639.97
Total Special Education Cluster			1,959,087.72
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,506,300.07
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	11,692.41
Total Title I, Part A Cluster			1,517,992.48
Adult Education - Basic Grants to States	84.002	191, 193	119,412.04
Career and Technical Education - Basic Grants to States	84.048	161	100,384.50
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	None	29,163.52
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	28,271.75
Education for Homeless Children and Youth	84.196	127	56,526.06
Tech-Prep Education	84.243	157	3,583.95
Twenty-First Century Community Learning Centers	84.287	244	1,307,384.12
State Grants for Innovative Programs	84.298	113	3,820.47
Education Technology State Grants	84.318	121	13,014.83
English Language Acquisition Grants	84.365	102	105,374.85
Improving Teacher Quality State Grants	84.367	224	423,834.07
Putnam County District School Board:			
Reading First State Grants	84.357	None	41,355.13
Palm Beach County District School Board:			
Voluntary Public School Choice	84.361	None	110,217.00
Total Indirect			5,819,422.49
Total United States Department of Education			6,418,742.48
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	1,230,339.45
Indirect:			
Florida Department of Children and Families:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	KD 137	100,803.96
Total United States Department of Health and Human Services			1,331,143.41
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	30,450.87
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	18,261.46
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	65,528.52
United States Department of Interior:			
Indirect:			
Monroe County Board of County Commissioners:			
Refuge Revenue Sharing	None	None	51,911.09
Total Expenditures of Federal Awards			$ 9,669,784.05

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

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food used during the 2008-09 fiscal year including $160,885 of cash-in-lieu of commodities. Commodities are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include $93,284.91 for grant number/program year 04CH0391/17 and $1,137,054.54 for grant number/program year 04CH0391/18.

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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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Monroe County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Monroe County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *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 Financial Statement Finding Nos. 1 through 6, which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, 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 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Financial Statement Finding Nos. 1 through 4 to be material weaknesses.

Compliance and Other Matters

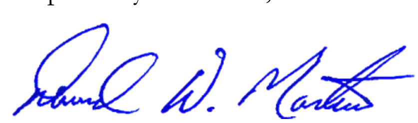
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in Financial Statement Finding No. 1 and Federal Awards Finding No. 1 of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 26, 2010

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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 Monroe County District School Board'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, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of 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.

As described in Federal Awards Finding Nos. 1 and 2 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Allowable Costs/Costs Principles that are applicable to the Adult Education – Basic Grants to States program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2009. 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 **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 3, 4, and 5.

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 certain deficiencies in internal control over compliance that we considered to be significant deficiencies and others that we consider to be material weaknesses.

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 deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, 4, and 5 to be significant deficiencies.

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. Of the deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we consider Federal Awards Finding Nos. 1 and 2 to be material weaknesses.

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

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

Respectfully submitted,

David W. Martin, CPA
March 26, 2010

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	Yes
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that not considered to be material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Adult Education – Basic Grants to States program (CFDA No. 84.002), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section __510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Fund for the Improvement of Education (CFDA No. 84.215); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Adult Education – Basic Grants to States (CFDA No. 84.002); Twenty-First Century Community Learning Centers (CFDA No. 84.287); and Improving Teacher Quality State Grants (CFDA No. 84.367)
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

MONROE COUNTY DISTRICT SCHOOL BOARD SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

Finding No. 1: District Expenditures

The District reported expenditures totaling approximately $89 million in the General Fund for the 2008-09 fiscal year. Board Policy 6480, *Expenditures*, requires that expenditures from District and all other funds available for the public school program be authorized by law and procedures prescribed by the School Board. While policies and written procedures have been established governing expenditures, District procedures were not operating effectively to ensure that errors or fraud, should they occur, would be detected and timely corrected. Consequently, certain control deficiencies and noncompliance findings discussed in our report No. 2009-209 (Finding Nos. 1 and 2) applied to transactions occurring during the 2008-09 fiscal year. In addition, as noted below, our tests disclosed further control deficiencies and noncompliance issues:

Finding No. 1A: Adult Education Vendor Purchases

Our review disclosed that District procedures designed to control vendor purchases for the Adult and Vocational Education Program were not always operating effectively to ensure that errors or fraud, should they occur, would be detected and timely corrected. For the period July 1, 2008, through June 30, 2009, the Adult and Vocational Education Program had purchases totaling $61,380.62 from vendors, excluding vendor payments tested and discussed in our report No. 2009-209, Finding No. 1C. Of these expenditures, 12 vendor payments, totaling $6,825.67, were initially selected for testing, and 9 of these payments, totaling $5,940.64, represented questioned expenditures because they did not appear to correlate to a District purpose. We expanded our tests to review an additional 20 vendor payments, totaling $21,870.03, which disclosed additional questioned expenditures, totaling $1,893.26. We also noted that the purchase requisitions and payment approvals for these purchases were made by the former Adult Education Coordinator. As disclosed below, vendor payments tested, totaling $7,833.90, represent questioned expenditures.

Vendor	Purchase Date	Amount	Description of Items Purchased as Shown on the Purchase Orders	Description of Items Purchased as Shown on the Receipt or Invoice
AT&T Mobility	7-1-08 to 1-19-09	$ 219.72	No Purchase Order	Cell phone service for former Adult Education Coordinator (1)
MARC	7-6-08 (3)	272.80	Plants for ESOL Learning Literacy Project	Landscaping Plants
MARC	10-31-08	194.40	Plants	Landscaping Plants
MARC	11-28-08	240.00	Plants for MARC Garden	No description on invoice
MARC	1-30-09	230.40	Supplies for Literacy Projects	Landscaping Plants
Manley-Deboer Lumber	10-20-08 and 10-21-08 (3)	518.04	Supplies Needed for MARC Shop	Plywood and framing lumber
Manley-Deboer Lumber	10-25-08	217.90	Supplies for Construction	Framing lumber and sheets of Dyofoam Styrene (2)
Borders Express	12-23-08 (3)	369.92	Textbooks for GED and ESOL	No description on receipt
Crutchfield	12-1-08	2,259.94	4 Blu-Ray Players and 2 Nikon Cameras	4 Blu-Ray Players and 2 Nikon Cameras
Crutchfield	12-4-08	499.98	Nano Music Player & Book Reader	iPod Nano & Sony Book Reader
K-Mart	9-12-08	499.97	Supplies for GED, ESOL	Water, soda, Gatorade, chips, popcorn, jerky, juice, cleaning products, pillow, jeans, hairspray, pain relievers, shampoo, toothpaste, Metabolife, gift cards, greeting cards, shirt, yogurt, etc.
K-Mart	12-11-08	352.76	Supplies for MARC, GED, & Family Literacy	DVD movies, gift bags, tissue, toilet paper, laundry detergent, soda, napkins, cutlery, soap, etc.
K-Mart	1-14-08	349.45	Supplies for MARC, GED, & Family Literacy	Deep fryer, paper, envelope, gift cards, greeting cards, Prilosec, medicine, men's t-shirts, men's jeans, pajamas, leggings, etc.
K-Mart	12-20-08 and 2-08-09	817.36	Supplies for MARC, GED, & LIT	Christmas decorations, picture frames, candles, tablecloths, cleaning products, soap, printer paper & ink, wood chips, Old Spice, shampoo, mouthwash, razors, pain relievers, hair dye, trash bags, Tic Tacs, chips, fruit roll-ups, condiments, crackers, soda, Chef Boyardee, milk, ramen noodles, frozen appetizers, etc.
Private Ear Recording Studio	11-11-08	195.00	Turntable Mixer	Turntable Mixer
Argelio Companioni	October 2008	596.26	Reimbursement for Postage for Literacy	Postage stamps

Notes:

(1) District records did not show why it was necessary to provide a cell phone to the former Adult Education Coordinator, as the District provided the Coordinator with BlackBerry cellular service.

(2) The invoice indicated that the purchase was made by a family member for the former Adult Education Coordinator.

(3) Included in these amounts is $1,085.13, which is included in the questioned costs of the Adult Education program discussed in Federal Awards Finding No. 1.

Recommendation: The District should establish adequate controls over expenditures to ensure that all purchases are for valid purposes, and independently reviewed and approved of record. The District should review the above questioned expenditures and determine the public and District purpose served by those expenditures. If such a public purpose cannot be determined, the District should pursue reimbursement of these moneys.

Finding No. 1B: Employee Reimbursements

Improvements could be made in controls over employee reimbursements to reduce the risk of errors or fraud. For the period July 1, 2008, through June 30, 2009, reimbursements to employees for purchases of materials and supplies for the District that were initially paid for personally by employees, totaled $18,339.75, excluding reimbursements to the former Adult Education Coordinator included in our report No. 2009-209, Finding No. 1, and travel reimbursements to District employees that were tested separately. Of these employee reimbursements, we tested five reimbursement transactions, totaling $5,699.36. Our tests disclosed the following control deficiencies:

- Reimbursements, totaling $646.05, made to an Assistant Principal on December 4, 2008, included: $29.76 for lunch - meeting with an individual; $225 for student's doctor visit; $48.09 for lunch - meeting with board members; $43.20 for lunch – staff support and girls; and $300 tip for restaurant staff - Thanksgiving lunch for over 65 people. Supporting documentation did not demonstrate the District and public purpose of these expenditures.
- Reimbursements, totaling $944.96, made to a clerk in the Instructional Services Department on July 30, 2008, included: $178.42 for variety snack pack, coffee creamer, napkins, plastic utensils, and cups; $190.70 for donuts, Danish rolls, fresh fruit platters, butter, and cream cheese; and $575.84 for chicken finger platters, mini sub platters, and Greek salads. The description shown on the purchase order for these reimbursements stated, "Open For Reimbursement Of Staff Meeting And Training." Supporting documentation did not demonstrate the District and public purpose of these expenditures.

For two of the five reimbursements tested, totaling $3,355.92, supervisory approvals were not obtained prior to the incurring the expenditures. In addition, District records indicated that one of the two reimbursements and the reimbursement discussed above which totaled $944.96, were approved by the employees receiving reimbursement and not independently approved by supervisory personnel. Without independent approval of employee reimbursements before and after the transactions occur, the risk increases that disbursements may be for noneducational purposes and contrary to good business practices. A similar finding was noted in our report No. 2009-209.

Recommendation: The District should enhance its procedures to ensure that all employee reimbursements are properly approved, documented, reasonable and necessary, and for a District and public purpose. In addition, the District should determine the public purpose served by the above questioned expenditures, and if such purpose is indeterminable, the District should pursue reimbursement of these moneys.

Finding No. 1C: Controls Over General Expenditures

The effectiveness of controls over general expenditures could be enhanced. State Board of Education (SBE) Rule 6A-1.012, Florida Administrative Code, requires that the District request bids from three or more sources for any authorized purchase or contract for services exceeding $25,000 ($50,000, effective February 25, 2009). In addition, the SBE Rule allows the District to purchase information technology resources through the bid process or by direct negotiation and contract, as best fits the needs of the District as determined by the Board. Pursuant to Section 282.0041(15), Florida Statutes, information technology resources include, in part, equipment, hardware, software, and other related material.

During the 2008-09 fiscal year, the District had expenditures, totaling approximately $73 million, excluding salaries, benefits, and other personnel services. After excluding expenditures of nonvoted capital outlay tax proceeds, employee expenditure and travel reimbursements, and adult education vendor payments, that were tested separately, we selected 40 expenditure transactions, totaling approximately $3.6 million, for further testing. These tests included a determination of whether District records evidenced the public purpose served for such payments and properly supported amounts, and whether expenditures were in accordance with applicable laws. The results of these tests disclosed the following control deficiencies and noncompliance:

- On August 27, 2008, the Board approved the renewal of a $60,000 vendor contract for networking/technology low voltage infrastructure services. On that date, the Board also approved the renewal of a $42,000 contract with the same vendor for maintaining the District's Web site and other information technology related services. Our review of payments made pursuant to these contracts and other supporting documentation disclosed the following:
  - Our inquiries and review of District records disclosed that the District did not obtain competitive bids to award these contracts because the purchases were information technology related expenditures which the District believed were exempt from the SBE Rule bidding requirements. However, the two contracts are for services related to information technology, not contracts for the purchase of information technology, and are therefore subject to the competitive bidding requirements.
  - The contract for networking/technology low voltage infrastructure services indicates that the contractor would be paid according to a contract attachment listing services and corresponding cost(s); however, District records did not evidence the attachment or other correspondence to define these agreed-upon services and related costs. In addition, our review also disclosed that the vendor's invoices did not include a detailed listing of actual services provided or the specific costs. The vendor's invoices only listed a brief description of the work, a range of dates work was performed, and a lump sum amount charged for labor and materials. Consequently, District records did not evidence the basis upon which the District determined that the amounts invoiced, approved, and paid were reasonable and in accordance with the terms of the approved contract.
  - The District made payments, totaling $132,953, or $72,953 more than the Board-approved contract amount, to the vendor for networking/technology low voltage infrastructure services, and District records did not evidence the justification for these payments to exceed the contract amount.
  - The contract for maintaining the District's Web site and other services, provided for lump sum monthly payments of $3,500, and payments made during the 2008-09 fiscal year for the contracted services totaled $40,871. The contract also required the vendor to submit monthly reports to the information technology (IT) Director, listing all services and work requests completed for the month. Upon inquiry, the IT Director informed us that such monthly reports were not prepared and submitted to the District for services performed during the 2008-09 fiscal year, but that the vendor obtained approval for the work performed through daily communication, using either e-mails, direct phone calls, or through the District's IT Help Request System. While the District provided correspondence that indicated approval for some of the contract work, the required monthly reports would have summarized and documented the amount of work performed by the vendor and provided administrative personnel and the Board with information necessary for evaluating the vendor's work and for determining the reasonableness and amount of compensation for any new or renewal contracts.
- Invoices supporting a $6,492.66 vendor payment for janitorial supplies delivered to 12 separate schools and departments, did not include documentation showing receipt of the supplies by District employees.
- District records for four expenditures tested, totaling $10,771.02, indicated that the invoices were not appropriately canceled or marked as "paid" to prevent the possibility of duplicate payment.
- No one independently approved a $71.57 payment for an employee's cell phone service and there was no documentation of payment approval for a $400 coral restoration dive trip for students.

Without adequate control procedures for purchasing, contract administration and related payments, documenting the receipt of goods and services, canceling invoices to prevent duplicate payment, and the independent review and approval of invoices for payment, there is an increased risk that errors or fraud, should they occur, would not be detected in a timely manner.

Recommendation: The District should enhance its control procedures over expenditures to ensure that, purchases are competitively bid when required, contracted services are provided and payments are made in accordance with contract terms and conditions, evidence of receipt of goods and services is obtained, invoices are appropriately canceled upon payment, and all payments are properly approved.

Finding No. 1D: Travel Expenditures

Section 112.061, Florida Statutes, provides the general travel expense reimbursement guidelines for public officers, employees, and authorized persons. A travel authorization request form is required to be completed by travelers requesting approval for the performance of travel to a convention or conference. In addition, the completion of a travel voucher is required to document, among other things, the purpose of the travel, the truthfulness and correctness of the claim, and that the travel expenses were actually incurred by the traveler as necessary in the performance of official duties. The original copy of the executed travel authorization request form shall be attached to the travel voucher on file with the respective agency. Board Policy 6550, *Travel Expense Reimbursement*, directs the Superintendent to establish uniform procedures to implement the Board policy and to prescribe forms and procedures necessary for maintaining accurate, uniform records.

Our review and testing of 40 travel expenditures, totaling $78,638.05, disclosed the following control deficiencies and questioned expenditures:

- District records supporting 8 airline tickets costing a total of $3,063.93, that were purchased on 4 of 11 airline ticket purchases tested, did not include travel vouchers to document the use of the tickets and other details of the travel. District records indicate that two tickets were for travel to a Music Educators Association meeting by a Key West High School band teacher and music teacher; one ticket was for travel to Sanford University for an Advance Placement Seminar by a Key West High School economics teacher; and five tickets were for travel to an FHSAA Wrestling Championship by three Key West High School coaches and two students.
- Our tests of 9 prepaid lodging expense payments disclosed 2 payments, totaling $4,927, to hotels for 11 travelers that were not supported by travel vouchers or hotel receipts.
- Hotel lodging expenses, totaling $856.34, were incurred for two employees listed on the hotel receipt who attended teacher training at a Key West hotel. District records did not document the necessary and public purpose served for these overnight lodging expenses as the assigned work locations and residences of both employees were less than 25 miles from the hotel. Additionally, employee travel vouchers were not on file in the District's records to support these lodging expenses. Upon inquiry, we were advised that one of the employees was the training director who stayed at the hotel and used the room as a meeting place for trainers and teacher participants before and after the training sessions and to store computers and other equipment used during the day for training. Also, as a result of our inquiry, the training director determined through e-mail correspondence with the second employee and other participants that the employee did not use the hotel room and instead, the room was used by another employee participant who was on authorized travel status.
- Meal reimbursements paid to a certified public accounting firm engaged to audit the District's school internal funds were calculated at a rate in excess of the rate provided for in the District's contract with the firm, resulting in an overpayment of $210.
- Our tests disclosed two instances where airline tickets purchased from a local travel agency on April 16, 2009, and May 4, 2009, were canceled and credits, totaling $605.20, were issued by the airlines to the intended travelers for use towards the cost of future travel. It was determined upon inquiry of District personnel that procedures had not been established for identifying and monitoring the use of credits issued for canceled airline tickets. The two credits noted had not been used at the time of our inquiry on July 23, 2009.

In our report No. 2009-209, we also noted that travel vouchers were not always prepared to support airline ticket purchases. Proper controls and procedures are necessary to safeguard District assets and without sufficient, appropriate supporting documentation, the risk increases that travel may not be for authorized public purposes.

Recommendation: The District should establish adequate controls and procedures to ensure that travel expenditures are necessary; sufficiently and appropriately documented; and are made in accordance with Section 112.061, Florida Statutes, and Board Policy.

Finding No. 2: Ad Valorem Taxation

The Board was authorized pursuant to the provisions of Section 1011.71(2), Florida Statutes, to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. The conditions precedent to the levy of such taxes have been narrowly construed by the courts (e.g., Wilson vs. School Board of Marion County, 424 So.2d 16 [Fla. 5th DCA 1983]), and failure to fully comply with such conditions may serve to invalidate the levies. Among the specified conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the board intends to spend the proceeds of each such tax levy and to specify in the required notice of tax levy the projects to be funded by such additional taxes.

The District published the notice of intent to levy ad valorem taxes for capital outlay millage in accordance with Section 200.065(10)(a), Florida Statutes. The law requires the notice to specify the projects to be funded by such additional taxes and the projects are to be listed in priority order with each category. The capital outlay tax levy was estimated to generate $12,992,737, and the published notice listed construction and remodeling as a category; however, no specific projects were listed for construction and remodeling. We noted capital outlay millage funds, totaling $931,539, were expended on the Key Largo School Renovation project even though this project was not specifically listed in the required notice of tax levy.

Section 1011.71(2), Florida Statutes, as amended by Chapter 2009-3, Laws of Florida, allows capital outlay tax levy proceeds to be used to fund, among other things, new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; school bus purchases; purchases of new and replacement equipment; and property and casualty insurance premium costs. Our tests of expenditures of capital outlay tax levy proceeds, totaling $8,720,429.04, disclosed expenditures, totaling $711,453.52, for which District records did not demonstrate that the expenditures were made for authorized purposes, as discussed below:

Description	Amount
Transfer to the General Fund for maintenance of computer hardware - portion of the salaries and benefits of 11 computer technicians (1)	$ 500,000.00
Harris School demolition project (the remaining school building and property was was subsequently sold for $4.5 million on August 20, 2009)	110,359.96
Portion of the salaries and benefits of a Finance Department Project Specialist and the Executive Secretary to the Director of Facilities and Construction (2)	57,881.28
Legal settlement to obtain clear title to the Key Largo School property (3)	35,000.00
Employee reimbursements and/or P-Card purchases by the:	
Principal at Key West High School (receipt not located for audit)	4,029.26
Former Adult Ed Coordinator (DVD's, music, gum, swivel stools, basket sets, bed, and fan)	3,724.08
Former Career Technical Ed Coordinator (miscellaneous tools)	458.94
Total	$ 711,453.52

Notes:

(1) Salaries and benefits totaled $658,839.39 for these computer technicians during the 2008-09 fiscal year; however, District records did not evidence the amount of time and effort spent by the technicians to maintain computer hardware to support the $500,000 transfer to the General Fund. In addition to maintaining computer hardware, technicians were also responsible for various tasks, such as installing, maintaining, and troubleshooting technology courseware; maintaining the school's network and network security; maintaining the school's phone system as administrator; assisting in the dissemination of technology information within the school and community; and performing other duties as assigned.

According to inquiries with Florida Department of Education Office of Educational Facilities (FDOE-OEF) staff, certain capital outlay millage charges for computer maintenance would be allowable, such as centralized computer repair departments to replace computer hard drives or installing more memory, or maintenance of enterprise resource software (ERS) applications. However, FDOE-OEF staff indicated that other computer maintenance charges funded by millage proceeds may not be allowable, such as maintenance on non-ERS software, data base maintenance, technical assistance or trouble-shooting for network connectivity, e-mail, or other software issues. Without District records to evidence the duties performed by computer technicians, records do not clearly indicate the allowability of using capital outlay millage proceeds for their salaries and benefits.

(2) District records did not evidence the amount of time and effort spent on capital projects funded with capital outlay millage proceeds for salary allocations, totaling $57,881.28.

(3) District personnel indicated that intentions were to use the property as collateral for a new certificates of participation (COPS) issue; however, no COPS were issued during the 2008-09 fiscal year.

These expenditures, totaling $711,453.52, represent questioned costs of the capital outlay tax levy proceeds. Section 1011.71(5), Florida Statutes, provides that a district that violated these expenditure restrictions shall have an equal dollar reduction in funds appropriated to the district in the fiscal year following the audit citation.

Recommendation: The District should amend its procedures for formulating its annual capital outlay budget, as well as the required published notice, to ensure that projects which the District anticipates to be funded with the estimated tax levy are clearly identified in its budget and included in the published notices. In addition, the District should document the allowability of the questioned costs, totaling $711,453.52, to the Florida Department of Education or restore the costs to the Capital Projects – Local Capital Improvement Fund.

Finding No. 3: School Capital Outlay Sales Surtax

On August 31, 2004, the citizens of Monroe County approved a 0.5 percent school capital outlay sales surtax authorized under Section 212.055(6), Florida Statutes. Board Resolution No. 589, provided that the surtax proceeds shall be used for lawful uses pursuant to Section 212.055(6), Florida Statutes, and continued funding as required to replace portable classrooms; for the renovation, rebuilding, or remodeling of District school structures that were built before 1978; for real estate acquisitions; and for technology upgrades. Section 212.055(6), Florida Statutes, allows surtax proceeds to be used to fund, among other things, fixed capital costs associated with the construction, reconstruction, or improvement of school facilities and campuses, land acquisitions, and land improvements. Surtax revenues may also be used for the purpose of servicing bond indebtedness to finance authorized projects. In addition, Section 212.055(6), Florida Statutes, states that neither the proceeds of the surtax nor any interest accrued thereto shall be used for operational expenses. Expenditures of school capital outlay surtax proceeds totaled $15,915,134.86 during the 2008-09 fiscal year, and included $12,484,528 transferred to the Debt Service Fund – Other Fund to make debt service payments for the District's Certificates of Participation and Sales Tax Revenue Bonds.

During our review of four projects with 2008-09 fiscal year expenditures of school capital outlay surtax proceeds, totaling $1,637,210.12, we noted the following expenditures, which do not appear to be authorized uses of the sales surtax proceeds:

Description	Amount
Salaries and benefits allocated to the Marathon High School and Key Largo School construction and renovation projects (1)	$ 176,337.19
Salaries and benefits of a Records Retention Specialist	68,028.64
Salaries and benefits related to operation of Sugarloaf School athletic field (cut and water grass, keep baseball infield level, etc.)	40,364.69
Employee terminal leave payments	9,236.00
Total	$ 293,966.52

Note:

(1) Portions of salary and benefit charges for certain employees were allocated to Marathon High School and Key Largo School construction and renovation projects after the projects were substantially completed on January 22, 2008, and August 28, 2008, respectively. However, District records did not evidence the basis upon which these allocations were made, including amounts, totaling $58,551.36, for the salaries and benefits of a Finance Department Project Specialist and the Executive Secretary to the Director of Facilities and Construction.

Consequently, these expenditures, totaling $293,966.52, represent questioned costs of the school capital outlay sales surtax proceeds.

Recommendation: The District should restore questioned costs, totaling $293,966.52, to the Capital Projects – Other Fund, or evidence in its records the allowability of these charges.

Finding No. 4: 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. District personnel should ensure that the report is accurate and contains required presentations and disclosures so that the users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition. Section 1001.51, Florida Statutes, and State Board of Education Rule (SBE) 6A-1.001, Florida Administrative Code, require the Superintendent to keep, or to have kept, accurate records of all financial transactions. SBE Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education prescribe the exhibits and schedules which should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed that enhancements in financial reporting procedures could be made, as shown in the following examples:

- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a fund as major when the fund's assets or expenditures represent at least 10 percent of the total governmental funds for these respective classifications. Assets and expenditures of the Debt Service – Other (DSO) Fund, totaled approximately $9.3 million and $13.7 million, respectively, as of June 30, 2009, and the fund's total assets and expenditures represented approximately 25 and 11 percent of the respective total governmental fund amounts. District personnel prepared a fund analysis to determine the major funds, but erroneously listed on the analysis amounts for the DSO Fund the same as another debt service fund, so the DSO Fund was not reported as a major fund, contrary to GAAP. Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their related balances and transactions, ensures compliance with GAAP, and ensures that all major funds receive the appropriate level of audit attention.

- The District properly reported the inception of capital leases during the 2007-08 fiscal year in the Capital Projects – Capital Improvement Section 1011.71(2) Fund; however, District personnel inadvertently recorded and reported amounts for the 2008-09 fiscal year from these leases, resulting in overstatements of facilities acquisition and construction expenditures and other financing sources, totaling approximately $2.4 million each.

- GAAP require that the basic financial statements include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. However, the District mistakenly excluded the investment note disclosure for custodial credit risk information for $5 million invested pursuant to a master repurchase agreement with a local bank (discussed further in Finding No. 5), and approximately $500,000 invested in certificates of deposit with a local credit union (discussed further in Finding No. 17). When investment note disclosures are not prepared as required, the risk increases for financial statement users to misunderstand the investment balances and activities presented on the financial statements.

The above errors and deficiencies were caused mainly because the District had ineffective review procedures to ensure the annual financial report was accurate and complete. We extended our audit procedures to determine the adjustments necessary for account balances, transactions, and disclosures to be properly reported, and adjustments were accepted by the District. Similar findings were noted in previous reports, most recently in our report No. 2009-209.

Recommendation: The District should establish adequate controls over financial reporting to ensure the accuracy and completeness of the annual financial report.

SIGNIFICANT DEFICIENCIES

Finding No. 5: Investments

Pursuant to Section 1001.41(4), Florida Statutes, the Board constitutes the contracting agent for the District, and is responsible for approving agreements. Section 1001.51(11)(j), Florida Statutes, requires that temporarily idle funds be invested to earn the maximum possible yield for the period available. Also, Section 218.415(12), Florida Statutes, and the Board's investment policy provide that, when appropriate, feasible, and practicable, the purchase and sale of authorized investment securities shall be competitively bid. Further, Section 218.415(16), Florida Statutes, and the Board's policy provide certain limitations to the types of investments, such as intergovernmental investment pools; registered money market funds; and repurchase agreements collateralized by United States Government obligations, provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian. The Board's policy also provides that all collateral securities must be held in an account separate from the assets of the financial institution, and that the custodian must provide safekeeping receipts to the District. Further, the stated purpose of the Board's policy is to ensure the prudent management of public funds.

In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), provides the minimum security measures for electronic funds transfers including a requirement to maintain written documentation signed by the authorized person and person making the transfers. The SBE Rule also requires the District to maintain written or printed confirmation from each financial institution acknowledging such transactions, including trust receipts, transfer acknowledgments, or canceled warrants.

During the 2008-09 fiscal year, investments of temporarily idle funds included amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools, certificates of deposit, and repurchase agreements. However, our review of investment transactions and inquiry of District personnel disclosed that competitive bids or quotes were not utilized for investment purchases and the justification for not obtaining competitive rates for evaluation was not documented in the District's records, contrary to Board policy.

As of June 30, 2009, District investments totaled approximately $8 million, including investments totaling approximately $5 million, pursuant to a master repurchase agreement with a local bank. Records provided for our review indicated that between July 29, 2008 and June 29, 2009, the District invested $10 million pursuant to three master repurchase agreements. However, our inquiries and review of District records disclosed significant control deficiencies relating the investments in repurchase agreements, as discussed below:

- District records did not initially evidence copies of the three master repurchase agreements or Board approval of the agreements, contrary to Section 1001.41(4), Florida Statutes. Subsequent to our request, District personnel obtained copies of two of the agreements from the bank, but District personnel had only signed one of the agreements.
- District records did not evidence that investment transaction confirmations describing the purchased investment securities were obtained or that periodic (e.g., monthly) investment statements were obtained detailing all transactions for the period, contrary to SBE Rule 6A-1.0012, FAC. Supporting documentation for the investment transactions recorded by journal entry in the District's general ledger consisted only of e-banking deposit and withdrawal transaction reports for the District's checking account. Those transaction reports contained only the date and amount of each transaction and did not provide information as to the nature and source of deposits, or the purpose and destination of withdrawals. Subsequent to our inquiries, District personnel obtained information from the bank that listed investment account activity for the repurchase agreements, which was in agreement with investment transactions recorded in the District's general ledger.
- The repurchase agreements provided that investment securities would be held at a third party bank in the name of Florida Keys Aqueduct Authority, instead of Monroe County District School Board. District personnel noted that, apparently, the bank inadvertently used the name of the other governmental entity when preparing the agreements.
- Although the repurchase agreements provided that purchased securities were to be held at a third party bank, the District's records did not evidence that a custodial agreement had been entered into with the third party bank identified in the repurchase agreements.
- The District's records did not evidence that the actual securities, trust receipts, third-party safekeeping receipts, or anything else of record was obtained to show that qualifying securities were pledged to secure the moneys invested.

In the absence of adequate records supporting investment transactions and independent assurance that qualifying securities are pledged to secure the investment of District funds, there is an increased risk of loss in the event the institution holding the funds is unable to honor its agreement.

Recommendation: To maximize the interest earnings of temporarily idle funds, the District should make investments pursuant to competitive selection procedures consistent with Board policy. Additionally, the District should enhance its control procedures to ensure that adequate records, such as master repurchase agreements approved by the Board, are maintained for investments and that funds invested are sufficiently and appropriately secured at all times as required by law.

Finding No. 6: Food Service Revenues

The District reported local food service revenues totaling approximately $1,325,000 for the 2008-09 fiscal year. Our review and analysis of the District's food service revenues disclosed that enhanced management controls were needed, as discussed in the following paragraphs.

Food service collections at the District's 12 schools are processed through a point-of-sale computer system which utilizes five-digit codes assigned to students to determine student payment status (full price, reduced price, or free) and to classify food service collections. The system generates daily reports by breakfast and lunch periods showing information such as the type and number of meals served for Federal reimbursement and monitoring purposes, the revenue generated from the food sales, amounts prepaid by students, the amount of cash and checks on hand for deposit, and amounts over and short. The system is designed to account for each student's prepayments, including the students' account balance, and reports can be generated on a daily, monthly, or annual basis.

Our review disclosed that District personnel did not use the sales reported by the point-of-sale system to record food service revenues, but recorded these revenues from actual deposits to the bank and bypassed the system's controls. Additionally, the District did not routinely reconcile actual deposits to amounts reported in the point-of-sale system, and did not reconcile the number of meals reported as served to the number of meals reported for Federal reimbursement. For example, we noted the following discrepancies in District records:

- Total sales reported on a point-of-sale system revenue report for the 2008-09 fiscal year were approximately $161,000 less that the sales recorded in the general ledger. The report indicated that District personnel made adjustments during the year to reduce the Sugarloaf School sales by approximately $13,000; however, District records did not evidence the reasons for the difference. Adjustments shown for the District's other schools ranged from reductions of approximately $2,700 to increases of approximately $350. With unexplained and unreconciled differences between the amounts reported by the point-of-sale system, amounts recorded in the accounting records, and actual deposits, accountability for food service collections is limited.
- The District's general ledger shows sales of student lunches and breakfasts for the 2008-09 fiscal year, totaling $1,151,167.11 and $5,919.79, respectively. However, our estimation of lunch and breakfast sales based on the number of meals reported as served by the point-of-sale system, times meal prices, were approximately $394,000 less and $47,000 more, respectively, than the sales shown in the general ledger. Further, the District had not established procedures to reconcile sales to projected collections based on meals served. Without such controls, or alternative procedures to properly account for these collections, there is an increased risk that errors or fraud, should they occur, may not be detected timely.
- Point-of-sale participation reports show the number of meals served by category and central office edit check reports show the number of students eligible for free and reduced price meals. However, our review of these reports for April 23, and 30, 2009, for the Coral Shores High School disclosed that more free and reduced price lunches were served than the number of eligible students. Additionally, the participation reports show that more meals were served than the number of meals shown as served on the edit check reports, as shown below:

	Free Lunch Meals			Reduced Price Lunch Meals		
	Eligible Students Per	Reported Served Per		Eligible Students Per	Reported Served Per	
Date	Edit Check Report	Participation Report	Edit Check Report	Edit Check Report	Participation Report	Edit Check Report
4-23-09	59	97	84	23	31	28
4-30-09	59	99	87	23	25	23

Based on the discrepancies above, District records did not evidence adequate monitoring procedures over free and reduced price meals served and there is an increased risk that such meals were not limited to those eligible.

- A point-of-sale system summary report of meals served for the 2008-09 fiscal year shows a comparison by school of the average daily attendance (ADA) to the number of meals served. For the Horace O'Bryant Middle School and Poinciana Elementary, the report shows that lunches were served to only 1.49 percent and 1.32 percent of the ADA, and for the District's other 10 schools the percentages ranged from approximately 34 percent to 74 percent. The ADA shown on the report for the Horace O'Bryant Middle School and Poinciana Elementary was significantly larger that the ADA reported for schools with similar enrollment. Accurate attendance information, when compared to the number of meals reported served, would be useful in determining the reasonableness of any changes in the number of meals reported as served by a school.
- Our review of the point-of-sale system reports of the Coral Shores High School for April 23, and 30, 2009, disclosed that the participation reports showed 144 free meal students, 46 reduced price students, and 745 full pay students, or a total of 935 students to potentially serve. Upon further review, we noted that the actual student enrollment of the school reported by the District for April 23, and 30, 2009, was 717 and 716 students, respectively; however, the central office edit check reports showed an enrollment for the school of only 396 students. When edit check reports or other records do not accurately present the enrollment information, the usefulness of such data is diminished. Inasmuch as the edit check reports, as noted above, provide information comparing the number of students eligible for free and reduced price meals, to the number of meals served, the accuracy of such information is necessary to ensure the number of meals reported for reimbursement by the School Breakfast Program and the National School Lunch Program is correct.

District personnel have not been able explain why the above discrepancies occurred, but are seeking assistance from the point-of-sale system software provider to resolve these issues. Consequently, the conditions described above indicate that there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should enhance control procedures over food service collections by recording revenue based on the sales reported in the point-of-system, reconciling reported sales and actual deposits, and monitoring the eligibility and reporting of students receiving free, reduced price, and full price meals.

ADDITIONAL MATTERS

Finding No. 7: Payroll Processing – Time Records

Procedures could be improved to document employee work time. Contracted employees are paid on a payroll by exception basis in which employees receive their regular pay each period, unless leave is taken to reduce their salary. At certain locations, employees maintain time sheets to document their arrival and departure times. In addition, the

Board annually adopts salary schedules to set forth the compensation of District employees, pursuant to State Board of Education Rule 6A-1.052, Florida Administrative Code.

Salary expenditures recorded for Key West High School Adult and Career Education (ACE), and Key West High School (HS) during the 2008-09 fiscal year totaled approximately $818,000 and $7,517,000, respectively. Our review of District records for ACE disclosed that teachers maintained weekly time sheets, showing daily arrival and departure times, to document salaries paid on an hourly basis. The teachers signed the time sheets, and their supervisor, or a different employee, approved the time sheets, and the former Adult Education Coordinator or other ACE employee approved the ACE payrolls prior to submitting them to the payroll office for processing. We further noted that daily sign in/out sheets were used to document attendance of teachers at HS; however, the sheets did not include arrival and departure times for each day worked. While the HS principal usually approved payrolls submitted to the payroll department for processing, no one approved the HS sign in/out sheets.

During the course of our audit, we became aware of two teachers who the District paid for teaching adult education classes at ACE and vocational education classes at HS that were held concurrently. District records, such as class schedules and teacher assignments, disclosed that both classes were scheduled to meet daily at the same times during the 2008-09 fiscal year. The high school classes for one instructor were scheduled to meet daily during the school year from 8:50 a.m. to 1:00 p.m., and from 8:50 a.m. to 1:55 p.m., for the other instructor. The adult education classes for both instructors were scheduled to meet from 9:00 a.m. to 3:00 p.m. We reviewed the sign in/out sheets and weekly time sheets completed by the instructors for the weeks ending November 28, 2008, March 13, 2009, March 20, 2009, and April 3, 2009, and noted that the times reported for teaching the adult education classes were during the times scheduled for their HS vocational education classes.

Pursuant to the Board-approved salary schedule, the District paid the two teachers on a contract basis for the high school vocational education classes and on an hourly basis for the adult vocational educational classes. The contract and hourly salaries paid to the instructors during the 2008-09 fiscal year totaled $60,523.44 and $13,653, respectively, for one instructor, and $32,368.40 and $13,736.25, respectively, for the other. While the employees received compensation for the instructional duties for both classes based on the Board-approved salary schedules, the salary schedules or other District records did not clearly evidence that the Board intended that the employees perform the duties concurrently. In addition, when work attendance is not timely evidenced and verified of record, the risk increases that employees may be incorrectly compensated.

Based on responses to our inquiries, the Superintendent has suspended the two teachers without pay, the teachers have requested a formal administrative hearing regarding this matter in accordance with Chapter 120, Florida Statutes, and resolution of this matter is pending as of January 2010.

Recommendation: The District should enhance its payroll processing procedures to ensure that employee work time is appropriately documented and approved. In addition, the Board should clarify its intent regarding the compensation of employees who perform overlapping duties, such as the two employees performing instructional tasks for classes held concurrently. As appropriate, the District should determine the amount of any salary overpayments to the two instructors, and collect the amounts overpaid.

Finding No. 8: Gasoline and Diesel Fuel Usage

The District maintains inventories of gasoline and diesel fuel at two locations within Monroe County. Fuel expenditures by the District for the 2008-09 fiscal year totaled approximately $242,000 for fuel obtained at the District's fueling locations, $225,500 for fuel purchased from the Monroe County Board of County Commissioners, and $44,000 for fuel purchased with gasoline credit cards. The fuel dispensing equipment at the District's two locations consists of a computer-based fuel pumping system to track fueling records. Two keys are usually needed to obtain fuel from the pumping system, a vehicle ID key and a personnel ID key. A master ID key can be used alone to obtain fuel; however, the individual using the master key must enter the vehicle or equipment number into the system manually to operate the fuel pumping system. Master ID keys were issued to seven employees of the Transportation Department. Vehicle ID keys can be coded so that a personnel ID key is not needed to obtain fuel. The system does not provide a receipt for the fuel obtained. Each fuel dispensing location is open on a 7-day, 24-hour basis, and attendants are not present when fuel is pumped.

The system produces monthly transaction reports for each vehicle or equipment item, detailing information entered by the individual obtaining the fuel such as the vehicle odometer reading or hours meter reading for other equipment, dates and times fuel was obtained, quantity of fuel pumped, and the personnel or master key ID number. The reports are used by the District to allocate fuel costs to the various schools and departments, and to bill other governmental agencies, such as the Monroe County Board of Commissioners (County), Florida Highway Patrol, Monroe County Sheriff, and other agencies that purchase fuel from the District. District personnel also obtain fuel from the County, and since the County uses the same type fuel system, the County provides similar detailed reports to the District for that fuel usage. Our review of the records and procedures for fuel used by the District's vehicles and other equipment disclosed that improvements could be made in certain internal control procedures, as discussed in the following paragraphs.

Upon inquiry, we were advised that the Director of Transportation (Director) reviews the fuel quantities obtained by employees and used for District vehicles as shown on the monthly transaction reports produced by the District's fueling system and the monthly detailed billings received from the County. The reports included certain items circled and the first page contained the reviewer's signatures. However, District records did not clearly evidence the procedures performed during the review process, such as whether a determination was made of the reasonableness of fuel usage and the dates of the reviews.

We reviewed the October 2008 and February 2009 transaction reports for fuel dispensed into District vehicles and other equipment at the District's two fueling locations. The reports included 614 fueling transactions for 129 District vehicles and other equipment items. Our review disclosed the following:

- The reports for fuel obtained at District locations did not contain the identification (personnel ID or the master key ID) of the individuals who obtained fuel for 52 fueling transactions. Upon inquiry, District personnel stated that the vehicle ID keys for those transactions were apparently coded to operate the fueling system without a personnel ID key. Our review of the October 2008 and February 2009 billing reports received from the County for fuel obtained from the County's fueling locations, disclosed 29 fueling transactions which did not identify the individuals who obtained the fuel.
- Significant fluctuations were noted for the miles per gallon fuel consumption shown on the report for several vehicles. For example, the amounts reported for four fueling transactions for one truck ranged from 21.7 miles per gallon to 67.5 miles per gallon; for another truck, the amounts reported for four fueling transactions ranged from 11.9 miles per gallon to 44 miles per gallon, and for another truck, the amounts reported for three fueling transactions ranged from 3.8 miles per gallon to 13.1 miles per gallon. The amounts reported for three fueling transactions for one van ranged from 59.3 miles per gallon to 88 miles per gallon. The amounts reported for four fueling transactions for one bus ranged from 7.2 miles per gallon to 35 miles per gallon. We also noted that current vehicle odometer readings recorded for 59 fueling transactions were less than or equal to the odometer readings recorded for the previous fuelings, and the odometer readings for 45 other fueling transactions were more than 1,000 miles higher than the odometer readings recorded for the previous fuelings. In addition, we noted two fueling transactions in which the odometer readings from the previous fueling transactions were not carried forward by the system.

Under these circumstances, the District has limited assurance of the reasonableness of fuel consumption and there is increased risk that unauthorized use of District fuel may occur without detection.

Recommendation: To improve accountability and control over gasoline and diesel fuel usage, transaction reports of the District and detailed billings from the County should be reviewed and approved by the individuals who obtained the fuel and by appropriate supervisory personnel. The reason for not using a personnel ID key should be documented whenever master keys are used and vehicle ID keys should not be coded to operate the fueling system without a personnel ID key. Significant fluctuations in vehicle fuel consumption (miles per gallon) and erroneous odometer readings should be investigated, and the results documented in the District's records.

Finding No. 9: Cash Collections – After School Day Care Program

The District operated a fee-supported, school-age child care program that provided after school care at nine schools. The District recorded fee collections, totaling approximately $775,000, during the 2008-09 fiscal year. Our review of internal controls and testing of After School Day Care fees collected for 66 students (22 students each at Gerald Adams Elementary, Glynn Archer Elementary, and Plantation Key Schools), disclosed the following control deficiencies:

- For the period July 1, 2008, through April 30, 2009, the After School Day Care Managers at Gerald Adams Elementary School and Glynn Archer Elementary School were responsible for collecting fees, writing receipts, completing the report of moneys collected, making the bank deposits, and maintaining the after school day care program records. Under these conditions, these employees had control over the cash collection and record keeping processes in such a manner that errors or fraud, should they occur, may not be detected in a timely manner. Effective internal control requires the separation of the cash collection and record keeping functions.

  We were advised by school personnel that as of May 1, 2009, the Gerald Adams Executive Secretary began making the bank deposits and comparing the bank deposit amounts to the reports of moneys collected. In addition, Gerald Adams school personnel indicated that they plan to have the School's Office Manager maintain the records of the After School Day Care Program for the 2009-10 fiscal year. Glynn Archer School personnel advised us that as of May 1, 2009, the Bookkeeper began collecting fees, writing receipts, completing the reports of moneys collected, making the bank deposits, and the School's Office Manager compares the bank deposit to the moneys collected form before the bank deposit is made.

- District records did not evidence that the District assessed the Board-approved rates at two of the three schools after school day care programs. Our test of fees collected disclosed a Glynn Archer Elementary student who was charged $35 per week for two weeks in May 2009, instead of the Board-approved rate of $45 per week, and two students at Gerald Adams Elementary were each charged $18 for one day in September 2008, although the approved fee schedule only provided for daily rates of $20 (professional day non-faculty child), $17 (professional day faculty child), and $10 (early release days drop in). When charges for participants are not consistent with Board directives, the risk increases that such charges may not be sufficient to cover the costs of the services.

- District personnel did not always deposit collections timely. For one student tested at Gerald Adams Elementary, we noted that the fees collected of $60 on April 3, 2009, were deposited 14 business days after receipt and the fees collected, which ranged from $40 to $160 for 9 other students at Gerald Adams Elementary and Glynn Archer Elementary were deposited between 4 and 7 business days after collection. Also, District records did not evidence the dates of collection and deposit for amounts totaling $2,105 for 17 of the 22 students tested at the Plantation Key School. The timely deposit of collections reduces the risk of intentional or unintentional loss of collections.

- The Board had not adopted written policies or procedures establishing the procedures for follow-up of overdue accounts. District records supporting fees assessed and collected disclosed outstanding amounts owed at June 30, 2009, for 21 students from the three schools included in our test. The outstanding balance totaled $2,784.77, with individual amounts ranging from $12 to $579. When collection efforts are not timely, there is an increased risk that such fees will remain uncollected.

- A fee audit performed by Finance Department personnel in February 2009, of the Plantation Key School after school day care collections, disclosed that for the period July 1, 2007, through February 24, 2009, collections, totaling $1,405 during the 2007-08 fiscal year, and $1,265 during the 2008-09 fiscal year, had not been deposited. Further investigation by District personnel disclosed that the collections may have been misappropriated, and that the matter was referred to the State Attorney for investigation.

Recommendation: The District should continue its efforts to enhance its control procedures over After School Day Care fees by properly separating inadequate duties; ensuring fees assessed and collected are consistent with Board directives; and depositing fee collections timely. Additionally, the Board should establish appropriate policies and procedures which include actions to be taken by District personnel on overdue accounts.

Finding No. 10: Cash Collections - Adult Education Department

Pursuant to Section 1009.22, Florida Statutes, and State Board of Education Rule 6A-6.084, Florida Administrative Code, the District assessed and collected fees from students enrolled in its adult education program. District records indicated that student fees were assessed for adult education classes, general educational development and other tests, and textbooks at the three high schools of the District. In addition, the Adult Education Department (Department) at Key West High School collected fees from customers for various cosmetology services provided by the students enrolled in cosmetology courses.

Our review and testing of Adult Education Program cash collections for the period July 1, 2007, to March 18, 2009, as discussed in our report No. 2009-209, disclosed the following control deficiencies:

- Written policies and procedures were not in place to properly control the assessment and collection of adult education program fees and charges for services of the cosmetology program, and established procedures were not effective to prevent, or detect and correct, errors or fraud should they occur.
- Collections were made without the benefit of a Board-approved rate schedule for fees and services.
- Periodic comparison of manual registration forms and enrollment records to fee collections (fee audits) were not performed.

During our current audit, we reviewed and tested the District's Adult Education Program cash collections for the period April 1, 2009, to June 30, 2009. The results of our review and testing disclosed that the District developed some written cash collection procedures for the Adult Education Program which included fee reconciliation, deposit journal, and bank deposit procedures, and on June 23, 2009, the Board approved a 2009-10 fiscal year rate schedule for fees and services. Upon inquiry, District personnel stated that the written procedures would be fully implemented during the 2009-10 fiscal year, and plans are to conduct a fee audit of the Adult Education Program cash collections.

Our testing of 15 receipts issued for collections, totaling $1,374, by the Adult Education Department for cash collections between April 1, 2009, and June 30, 2009, disclosed that collections were not always deposited on a timely basis, as the collections for 5 receipts which totaled $285, were deposited between 4 and 33 business days after collection. The timely deposit of collections reduces the risk of intentional or unintentional loss of collections.

Recommendation: The District should continue its efforts to enhance the Adult Education Department cash collection procedures, ensure that all cash collections are deposited in a timely manner, and provide for a fee audit of adult education course fees.

Finding No. 11: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that, as the District collects an individual's SSN, it must provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this section provides that SSNs collected by the District may not be used by the District for any purpose other than the purpose provided in the written statement. This Section also requires the the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

District personnel indicated that SSNs were obtained for various purposes such as for student enrollment, employee retirement, employee insurance, employee payroll deductions, tax purposes, vendor identification and fingerprinting purposes, and for volunteer fingerprinting and background screenings. However, inquiry with District personnel disclosed that the District did not provide individuals with a written statement indicating the purpose for collecting the SSNs, contrary to Section 119.071(5)(a), Florida Statutes. As of July 8, 2009, District personnel indicated that efforts are underway to develop a written statement to ensure compliance with the above statutory requirements. A similar finding was noted in our report No. 2009-209.

Recommendation: The District should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Finding No. 12: Student Diplomas

Improvements could be made in controls over high school diplomas. During the 2008-09 fiscal year, the District had three high schools. As similarly noted in our report No. 2009-209, our review of controls over the issuance of diplomas disclosed there was an inadequate separation of duties over the ordering and receipt of diplomas at Key West High School. The Principal's administrative assistant submitted orders, containing information such as student names and diploma types, along with blank diploma forms to the printing company for further processing. The administrative assistant received and retained possession of the completed diplomas until they were distributed at graduation by the assistant principals and the administrative assistant. Unissued diplomas were held until the following school year and then shredded. No employee other than the administrative assistant accounted for the number of diplomas ordered, received, retained, distributed to students, or shredded. Without the appropriate separation of duties to account for diplomas, there is an increased risk that errors or irregularities, should they occur, might not be detected in a timely manner.

Recommendation: The District should enhance its procedures over diploma processing by separating, to the extent possible with existing personnel, the functions of ordering, receiving, controlling and distributing diplomas to ensure diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

Finding No. 13: Property Insurance Coverage

Pursuant to Section 1001.42(11)(d), Florida Statutes, the Board is authorized to carry insurance on District school buildings, including contents, boilers, and machinery. Additionally, pursuant to Section 1001.42(12)(k), Florida Statutes, the Board is to provide for adequate protection against any loss or damage to school property. In fulfilling this responsibility, the Board has provided property insurance coverage on a self-insured basis up to specified limits. Agreements have been entered into with various insurance companies to provide specific excess coverage of claim amounts above a stated amount on an individual claim basis and aggregate excess coverage.

We reviewed the District's school property costs and replacement values (insured values) and compared those amounts to the commercial insurance coverage purchased. The school property replacement values were approximately $326 million at June 30, 2009, whereas the District's excess insurance for wind coverage had a wind loss limit of only $2.5 million (a decrease of $2.5 million from the $5 million loss limit at June 30, 2008) per named windstorm after a deductible of 5 percent of total insured values per location subject to a minimum of $10 million deductible per occurrence. While the District anticipates that Federal and State government assistance may be necessary to cover losses in excess of its insurance coverage, District records did not evidence a formal plan of action if the District incurs such losses. For example, if the District incurred a $29 million loss on property with an insured replacement value of $100 million as a result of single named windstorm, District records do not evidence what resources would fund the excess loss totaling $26.5 million. Additionally, as of June 30, 2009, the District only had approximately $6.3 million available in unreserved fund balance in the General Fund to cover losses above the insurance coverage.

A similar finding was noted in our report No. 2009-209. In response to our prior audit finding, the former Superintendent indicated that the District levies .5 mills out of a potential 1.5 mills (2009 Statutes) for capital outlay and the District may increase the capital outlay millage to cover the loss deductible, in addition to using Federal Emergency Management Agency funds to the extent they were authorized and available. While these measures may mitigate the amount of losses, the failure to establish a formal plan to fund the significant loss deductible resulting from a named windstorm could create a financial strain on the District's ability to meet obligations relating to property losses that may occur in the future.

Recommendation: The District should establish a formal plan documenting how the loss deductible will be met for wind coverage.

Finding No. 14: Health Self-Insurance Plan Funding

The District established a self-insurance plan for health insurance coverage. Risk is retained by the District up to specified limits, and agreements have been entered into with various insurance companies to provide coverage of individual claim amounts above specified limits and coverage of aggregate claims when total claims exceed specified limits. The Board contracted with a service agent to administer the plan, including the processing, investigating, and payment of claims.

Pursuant to Section 112.08(2)(b), Florida Statutes, the District is required to provide a health self-insurance plan, along with a certification as to the actuarial soundness of the plan, to the Office of Insurance Regulation (OIR), and OIR must determine whether the plan is designed to provide sufficient revenues to pay current and future liabilities. After implementation of an approved plan, the District must annually submit to OIR a report that includes a statement prepared by an actuary as to the actuarial soundness of the plan.

Effective January 2006, the Board-approved annual contribution rates for health insurance were $7,226.30 and $7,967.22 for single and family coverage, respectively. Effective August 2007, the Board approved an increase in the District's contribution rates to $8,250.08 and $8,991 for single and family coverage, respectively. For the 2007-08 and 2008-09 fiscal years, the District's contributions totaled $7,425,096.20 and $7,389,629.78, respectively. District personnel did not increase the District's required contributions to the Health Insurance Internal Service Fund and continued those contributions at the January 2006 rates. District personnel indicated their intention was to make lump sum transfers from the General Fund to the Health Insurance Internal Service Fund for the shortages of these contributions; however, no such transfers were made from the General Fund for the 2007-08 or 2008-09 fiscal years. In response to our inquiries, District personnel provided records evidencing that the District transferred $1,000,000 from the District's Workers' Compensation Self-Insurance Fund to the Health Insurance Internal Service Fund during the 2007-08 fiscal year. However, during the 2008-09 fiscal year, the District transferred $1,430,000 from the Health Insurance Internal Service Fund to the Workers' Compensation Self-Insurance Fund. Based on the August 2007 Board-approved change in annual contribution rates, an additional $2,348,111.60 of contributions should have been transferred from the General Fund to the Health Insurance Internal Service Fund for the 2008-09 fiscal year.

The Office of Insurance Regulation (OIR) reviewed and accepted the December 2008 actuary report of the health insurance program, and concluded that, based on the plan's liabilities and assets, the program appeared to produce an adequate positive surplus in compliance with Section 112.08, Florida Statutes. However, failure to follow the Board's directives through required funding could adversely impact the District's ability to meet health self-insurance obligations in the future.

Recommendation: The District should enhance procedures to ensure that District contributions to the health self-insurance plan are consistent with Board-approved rates.

Finding No. 15: Construction and Day-Labor Project Administration

Section 1013.45(1), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a program management entity or for the construction, renovation, remodeling, or maintenance of existing facilities using day-labor. The program management entity would be responsible for scheduling control, cost control, and coordination in providing or procuring planning, design, and construction services. The program management entity must consist of, or contract with, licensed or registered professionals for the specific areas of design or construction to be performed as required by law. The program management entity may retain necessary design professionals selected under the process provided in Section 287.055, Florida Statutes. The Statute further provides that the construction manager 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. For purposes of Section 1013.45, Florida Statutes, day-labor contract means a project constructed using persons employed directly by a board or by contracted labor.

The Board entered into an agreement with a construction company (the TPM) to provide total program management services for all major construction projects. The agreement states that the Board's intent is to have the TPM provide management services for a multi-site, multi-project facilities improvement program of remodeling, renovation, additions, and new construction, including all design services and all labor, materials, and equipment used or incorporated in the project. The TPM has agreed to manage the design, construction, and completion of the District's projects within the guaranteed maximum price (GMP) and Task Order Master Schedule to be proposed by the TPM and approved by the District. The TPM will be responsible for providing all design services for each project with its own qualified professionals and by sub-consultants selected and under contract with the TPM. Similarly, construction services will be contracted and paid by the TPM. These services are to be performed by qualified trade contractors and suppliers, selected by competitive bid or other selection method consistent with Florida Department of Education requirements.

Our review of expenditures, totaling $989,155.98, for the TPM of the Key Largo School major renovation project and expenditures, totaling $435,764.14, for five day-labor projects, disclosed the following deficiencies:

- Subcontractor bid documents for the Key Largo School major renovation project were not on file with the District for the four subcontractor payments selected for review, totaling $301,711.75. Without subcontractor bid documents, District records do not evidence that the subcontractor costs (scheduled values) listed on the payment requests agreed with the amounts bid. Subsequent to our inquiry, the Executive Director, Facilities and Construction, obtained subcontractor bid information from the TPM for those subcontractor payments. Our review of the subcontractor bid information provided disclosed that only one item (wood doors $9,400) included in the $80,100 payment to one of the subcontractors, agreed with the price bid for the item.
- The District made payments, totaling $97,150, to a contractor for construction services on the Horace O'Bryant Middle School concession stand project and payments, totaling $86,054.20, to the same contractor for services relating to the demolition of the Harris School. The District based its payments to the contractor upon a general services contract between the contractor and the City of Key West. Although the hourly rates and unit prices charged for labor, equipment rental, and fill material were generally in accordance with the City's contract, District records did not include documentation, such as time sheets or other payroll records to support the labor charges ($123,823), time records showing the dates and hours of daily equipment rental use ($47,330), and delivery tickets for the receipt of fill material ($12,051.20). When payments are not adequately supported, the District has limited assurances that it is receiving the goods and services to which it is entitled at the agreed-upon prices.
- The total cost of the Horace O'Bryant Middle School concession stand project was $218,472.83. District personnel indicated that, based on a verbal agreement between the former Superintendent and the Mayor of the City of Key West, the City was responsible for reimbursing the District for project costs, totaling $120,000. Although the District requested reimbursements, totaling $90,910, from the City on January 13, 2009, and reimbursements for the remaining balance of $29,090 on April 3, 2009; as of September 14, 2009, the District had not received any reimbursement for the amounts requested from the City. Without a Board-approved written contract to establish the responsibilities of the two entities, the ability of the District to obtain reimbursement for costs incurred may be limited.
- Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code, require the Superintendent to keep, or have kept, accurate records of all financial transactions. At its meeting on July 22, 2008, the Board approved a $115,185 contract to furnish and install 3,500 cubic yards of 80 percent non-sterilized topsoil mix 4 inches thick over approximately 20,000 square yards of green area at Key Largo School to ready the playground for sod. District records indicated that quotes for the topsoil were obtained from three vendors; however, in response to our request for copies of the quotes, the Director of Purchasing provided us with an e-mail received from the Director of Transportation, which stated that she remembered the quotes but would not have kept them. As noted below, the District was also unable to locate delivery tickets for the topsoil. Without documentation of the quotes received, the District cannot demonstrate the fairness of this purchase.
- District records did not adequately evidence receipt of goods or services for purchases, totaling $449,522.43, relating to five projects. This included instances of purchases made with no documented evidence of receipt,

and documented evidence of receipt by persons without apparent authority (or direct knowledge) of receipt of the goods or services. For example, we noted that on September 11, 2008, the Director of Transportation signed as receiving 3,500 cubic yards of topsoil delivered to the Key Largo School at a total cost of $115,185. District records did not demonstrate that the Director of Transportation had direct knowledge of the actual quantities of topsoil received or was present when the topsoil was delivered. In response to our request for trucking company delivery tickets to evidence the quantity of topsoil delivered, the Executive Director for Facilities and Construction provided copies of invoices obtained from the trucking company and stated that the Director of Transportation remembers seeing the delivery tickets prior to processing the invoice for payment but is unable to locate them at this time. The trucking company invoice indicated that the topsoil had been delivered to the school over several days between August 11, 2008 and August 25, 2008. Without adequate documentation of receipt of goods or services, the risk increases that such purchases may not be received by the District and used for the intended public purpose.

Recommendation: The District should enhance its construction and day-labor project administration procedures to ensure that, subcontractors hired by the TPM are paid consistent with bid prices and related contracts; payments for labor, equipment rental, and materials are adequately documented; and the receipt of goods and services is adequately documented and evidenced by persons with direct knowledge and apparent authority. Additionally, when a portion of a projects costs are to be paid by another government, prior to incurring project costs, a written contract should be prepared and approved delineating the responsibilities of the parties. The District should also enhance its purchasing procedures to ensure that documentation is retained for all quotes to evidence the fairness of the purchasing process and compliance with Florida Statutes and State Board of Education Rules.

Finding No. 16: Maintenance Department Purchases

Our review of documentation supporting 20 payments, totaling $87,712.43, to 15 vendors disclosed that the District needed to improve its procedures for monitoring Maintenance Department purchases as noted below:

- The District is required, pursuant to State Board of Education Rule 6A-1.-12(6), Florida Administrative Code, and Board Policy No. 6320 to request bids from three or more sources for any authorized purchase or contract for services exceeding $25,000. During the 2008-09 fiscal year, the District made purchases of floor cleaning supplies from one vendor, totaling $36,417.05, without the benefit of competitive bids or quotes. We were advised by the Director of Purchasing that the Purchasing Department attempted to renew its 2007-08 fiscal year bid contract with the vendor; however, the vendor did not respond to the District's requests (phone calls and faxes) to renew the contract for the 2008-09 fiscal year.
- Prices paid to one vendor for custodial supplies did not always agree with bid amounts and many of the items purchased were not included in the bid; therefore, the District was not able to verify the prices paid to this vendor were at the lowest price resulting in the best value. The District made purchases totaling $150,526.04, from this vendor during the 2008-09 fiscal year. According to the Assistant Finance Director, the District is implementing a new procedure to ensure payments are made in accordance with contract and bid agreements.
- Vendor invoices were not available to support purchasing card purchases, totaling $10,764.58, from five vendors for materials and supplies used on certain maintenance projects. While the payments were made based on purchasing card bank statements and payment request forms approved and signed by the employee's supervisor, the absence of vendor invoices increases the risk that errors or misappropriations could occur.
- Evidence of the receipt of maintenance and custodial supplies purchased from seven vendors, totaling $44,051.07, was either not documented or the person who evidenced receipt of the supplies was not a District employee.

Without selecting vendors pursuant to competitive bids, as required, or maintaining evidence to properly support the accuracy and propriety of purchases, the risk increases for errors or misappropriations to occur and not be timely detected.

Recommendation: The District should strengthen its control procedures to ensure that purchases exceeding the thresholds set by State Rule and Board policy are competitively bid, as required, that purchases are obtained at the lowest and best price consistent with product quality and performance, and that sufficient documentation is obtained to show that purchases are made in accordance with applicable bid and contract terms and conditions. Additionally, as also noted in Finding No. 15, the District should ensure that all purchases are adequately supported by vendor invoices and the receipt of goods and services are evidenced by authorized persons.

Finding No. 17: Qualified Public Depositories

Section 280.03, Florida Statutes, provides that public deposits shall be secured in a qualified public depository unless exempted by law. Qualified public depositories are institutions that have pledged collateral pursuant to the requirements of Section 280, Florida Statutes, to be used as security for Florida public deposits. Our review disclosed that from November 19, 2008, the District maintained approximately $500,000 in two certificates of deposit at a financial institution (Monroe County Teachers Federal Credit Union) that was not approved as a qualified public depository. In addition, the District did not require the financial institution to pledge collateral to secure the funds on deposit. These funds were insured by the National Credit Union Association with an insured combined accounts limit of $250,000. On September 24, 2009, the District redeemed one of the certificates and transferred $255,778.20 from the credit union to a District account with a qualified public depository. The second certificate matured on November 19, 2009, and $258,891.72 was received and deposited in the same account with the qualified public depository.

Recommendation: The District should enhance its controls to ensure that all funds are maintained in a qualified public depository, as required by law.

Finding No. 18: Loans to Employees

Article 7, Section 10 of the State Constitution, prohibits a public body from giving, lending or using its taxing power or credit to aid a private person or corporation. During the 2008-09 fiscal year, in conflict with this section of the State Constitution, the Board approved promissory notes for no interest loans to three employees totaling $7,000. The loan amounts ranged from $1,000 to $3,000, with repayment by payroll deduction until the sum owed is paid in full. At June 30, 2009, unpaid loan amounts totaled $1,825.

Recommendation: The Board should comply with the provisions of Article 7, Section 10 of the State Constitution, and discontinue the practice of making loans to employees.

Finding No. 19: Information Technology – Approval of Requests

Formal change management procedures assist information technology (IT) management in maintaining control over user requests for program changes and other related IT services. Such procedures typically include a requirement for user approval of program changes and changes to data made by IT personnel on the user's behalf.

As similarly noted in our report No. 2009-209, the District's procedures for requesting and approving service from the Information Technology Services department (ITS) needed improvement. The Programming Policies and Procedures section of the *Monroe County School District Technology Plan – 2009* (Technology Plan) referred to signed hardcopy requests that were no longer being used by the District. According to District management, users are now being asked to log all requests for service into a helpdesk request system rather than complete paper forms. Also, although the Technology Plan did not address requirements for user approval of program or data changes made by ITS personnel, instructions for submitting requests on the District's Technical Support Web page advised users that, following the resolution of an issue, they would be asked to update the request with a note that the problem has been resolved.

Upon audit request, the District provided ten requests from the helpdesk request system related to the District's business systems. The requests provided related to disabled user IDs, student ID number changes, a personnel listing, an attendance report, the setup of a new fund, a cost center access change, and an academic history correction. The descriptions on five of the requests indicated that the requests required programming or data changes by ITS personnel. However, none of the five requests included the user's approval of the work done by ITS. In response to our inquiry, District management stated that users are not using the approval feature of the helpdesk request system.

Although the current Technology Plan does not address the use of the helpdesk request system for requests related to the District's business systems, according to District management, the District plans to include a reference to the helpdesk system in the next revision of the Technology Plan. Without documented user approval of program and data changes made by ITS personnel, the risk is increased that erroneous or unauthorized changes will be implemented.

Recommendation: The District should establish written procedures for obtaining user approval of program and data changes made by ITS personnel, prior to the implementation of the changes.

Finding No. 20: Information Technology – Disaster Recovery Plan

An important element of an effective internal control system over IT operations is a formal, written disaster recovery plan. A disaster recovery plan should identify the data, processes, and applications that are critical to the District, provide for the backup of critical data, and contain a step-by-step plan for recovery so that the potential impact of a disaster on ongoing operations is minimized. A disaster recovery plan should also include a written agreement for an alternate processing facility that can be used in the event of an emergency and the specific responsibilities of both parties relating to the use of that facility.

The District's disaster recovery plan focused on the back-up of data but lacked the following important details:

- Identification of critical applications, programs, and data files.
- Predetermined priority for application processing.
- Minimum computer configuration, associated communications systems and applications software, physical facilities, and security necessary for processing critical systems.
- Identification of personnel, their back-ups, and their responsibilities in the event of a disaster.

Additionally, the District's disaster recovery plan was not current. For example, the plan indicated that, in the event of an emergency, computer equipment would be sent directly to Hamilton County School District per a reciprocal agreement. However, the District no longer had a reciprocal agreement with Hamilton County School District to use each other's facilities as alternate processing sites. In response to our inquiry, District management stated that the District plans to develop an agreement with the Columbia County School District during the 2009-10 fiscal year. District management further stated that the District plans to create an alternate processing site within the county at a disaster recovery center. This center is intended to be capable of running the District's business systems.

The disaster recovery plan referred to various locations for off-site data storage. However, the plan did not identify the location of particular backed-up files. Although District management indicated that some of the District's back-ups have been tested, there has been no disaster recovery simulation testing and evaluation of the District's disaster recovery plan.

Without a current disaster recovery plan that includes the information described above, and disaster recovery simulation testing, there is an increased risk that the District will be unprepared to timely process critical transactions following a disaster. In response to our inquiry, District management stated that revisions to the District's disaster recovery plan will be incorporated into the next edition of its Technology Plan.

Recommendation: The District should update its disaster recovery plan and include the key elements described above. The District should also conduct disaster recovery simulation testing and evaluation using its disaster recovery plan.

Finding No. 21: Information Technology – User Access Management

Effective security administration is promoted by written procedures that ensure timely and consistent action relating to requesting, establishing, issuing, suspending, and closing of user accounts. Controls over access include the documentation of authorization on standard forms that are approved by senior management, transferred to security managers, and maintained on file. The enforcement of separation of duties by access authorization policy reduces the possibility that a single person could be responsible for diverse and critical functions in such a way that errors or misappropriations could occur and not be detected in a timely manner and in the normal course of business processes. Effective control processes include a periodic review and confirmation of user access rights.

According to District management, the District's security administration procedures were included in the Technology Plan. The Technology Plan referenced a District security plan for procedures for requesting, establishing, issuing, and closing user accounts. However, the existing District security plan did not provide any further instructions. In response to our inquiry, District management stated that the security plan was still being developed.

The District used different forms, as well as e-mail communications, as access request mechanisms for the District's business systems. Among the access request mechanisms used was an access authorization form that enabled supervisors to indicate the specific system screens that users were authorized to access. We performed a test of access authorization for new or changed access for 21 users of the District's business systems. Our evaluation of the test results disclosed that:

- Eleven users were given profiles with access to more screens than what was specifically requested on the access authorization form. Only 1 person in the test was given access to screens that matched what was requested on the access authorization form.
- Two users approved their own access with no additional management approval.
- Access authorization forms were not submitted for 4 of the users included in our test. For 2 of the 4 users, there was no authorization documentation. The e-mail authorizations for the other 2 users gave their work locations and job function but not the screens needed.

Without documented supervisory authorization of user access privileges, the risk is increased that the user will be given more access than needed to perform job responsibilities or access that is contrary to an appropriate separation of duties.

Our audit further disclosed that some District users had access that was contrary to an appropriate separation of duties. Specifically, 25 users, including 4 of the 21 users included in our test of access authorization, could both create and approve requisitions. In response to our inquiry, District management stated that a decision had been made and implemented to no longer allow anyone to both create and approve requisitions.

There were no provisions in the Technology Plan requiring management review of user access privileges. In response to our inquiry, District management stated that the District sent each school and department a list of users for verification and that various other actions have been taken by IT management to remove unneeded access. However, there was no written requirement for management to periodically review the appropriateness of the level of access granted to subordinate users. Without periodic management review of user access, users may retain access that is no longer needed or contrary to an appropriate separation of duties.

Recommendation: The District should establish written access management procedures for requesting, establishing, issuing, suspending, and closing user accounts, including a requirement for a user's supervisor to approve the specific access needed. In addition, the District should ensure that management periodically reviews the appropriateness of subordinate user access privileges.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); and Improving Teaching Quality State Grants (CFDA No. 84.367)
Finding Type: Material Noncompliance and Material Weakness (CFDA No. 84.002); Noncompliance and Significant Deficiency (CFDA Nos. 84.010 and 84.367)
Questioned Costs: CFDA No. 84.002 - $19,784.94; CFDA No. 84.010 - $88,873; CFDA No. 84.367 - $2,655

Allowable Costs/Costs Principles. The United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1 provides, in part, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, and be adequately documented. Adequate supporting documentation for costs is also necessary for grantees to properly manage and monitor grant operations. In addition, Title 34, Section 80.30(i)(11), Code of Federal Regulations, requires that contractors retain all required records for three years after final payment and all other pending matters are closed. However, our procedures disclosed certain areas of noncompliance and questioned costs relating to the Adult Education, Title I, and Improving Teacher Quality programs, as discussed below.

Adult Education Program. In our report No. 2009-209, Federal Awards Finding No. 1, we noted Adult Education program expenditures incurred during the 2008-09 fiscal year totaling $12,645.73 that did not appear to be allowable under applicable cost principles and Federal regulations. The adult education grants awarded to the District included the General Educational Development program, the Adult Basic Education program, the English for Speaker of Other Languages program, and the Civics and Citizenship program. Our current review of 20 additional expenditures charged to the programs during the 2008-09 fiscal year disclosed 12 expenditures totaling $7,139.21, for items such as beauty salon supplies, cosmetology books, and plywood, that also represent questioned costs to these programs, as noted in Financial Statement Finding No. 1A.

Title I Program. Title 34, Section 200.45, Code of Federal Regulations, provides that, for those schools identified for a second year as a school in need of improvement, the District must arrange for eligible students to receive supplemental educational services (SES) from a State-approved provider. The District contracted for tutorial services at Gerald Adams Elementary with a SES provider, requiring the provider to maintain records for five years of student attendance showing the dates of tutoring sessions, including starting and ending times, and paid $88,873 to the provider for these services. The contract authorized the SES provider to charge a per-student fee of $68 per hour for group tutoring up to a maximum of $995 per student for providing its services. The after school tutoring sessions were often taught by District teachers who were employed by the provider, and some of the teachers also received additional pay for administering after school activities of the Twenty-First Century program. Although the SES provider furnished the District with a summary of the tutoring session dates and monthly student progress reports completed by the tutors to support amounts billed on monthly invoices, the provider did not provide daily attendance records showing the starting and ending times of the sessions. Upon inquiry, District personnel requested the 2008-09 fiscal year daily attendance records from the provider; however, the provider indicated that the records had been shredded since the District had not previously made this request, although the contract provisions and Federal regulations required that the records be maintained. Further, other District records were not available to evidence that the District obtained the contracted services. Without such documentation, these expenditures, totaling $88,873, represent questioned costs to the Title I program.

Improving Teaching Quality Program. For the 2008-09 fiscal year, we reviewed 10 expenditures charged to the Improving Teaching Quality program totaling approximately $65,000. Our review disclosed that procedures to ensure that payments were adequately documented needed improvement as described below:

- District records did not evidence the number of hours or days worked by a consultant, or a description of the consultative services provided, for a payment totaling $1,800.
- The District reimbursed two employees a combined total of $855 for certain on-line course completion certificates; however, the purchase order approving the reimbursements was dated after the course completion and request for payment date. In addition, District records did not include vendor invoices to evidence the amounts that the employees paid to the vendor. Without prior authorization or adequate documentation to substantiate amounts paid to vendors, there is an increased risk that the District may overreimburse employees for such costs.
- The District paid $24,000 for online professional services for certain employees; however, the purchase order authorizing the expenditure was dated subsequent to the receipt of the services and invoice date. Purchase orders serve to record management's prior authorization to acquire such services, and provide a basis for controlling budgeted appropriations and use of funds pursuant to grant restrictions.

Without adequate support for the above expenditures of $1,800 and $855, charges totaling $2,655 represents questioned costs to the program.

Based on responses to our inquiries and review of District records for the three Federal programs, the above noncompliance areas and questioned costs mainly occurred because of the lack of adequate supervisory monitoring of these programs.

Recommendation: The District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $111,312.94, or the costs should be returned to the respective programs. In addition, to help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities, the District should establish procedures to ensure that expenditures are adequately documented as required by applicable Federal regulations.

District Contact Person: Michael J. Henriquez, Chief Academic Officer

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Adult Education – Basic Grants to States (CFDA 84.002)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: $11,281

Allowable Costs/Costs Principles – Documentation of Time and Effort. The United State Office of Management and Budget *Circular A-87* provides, in part, that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. In addition, where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated and be signed by the employee.

During the 2008-09 fiscal year, the District paid salaries and benefits, totaling approximately $93,588, to employees from the adult education program. Our review of salary and benefit payments for four employees totaling approximately $83,688 disclosed that the required semi-annual certifications or personnel activity reports for these employees supporting the allocation of salaries to the adult education program were not prepared and maintained by the District. As a result, we expanded our audit procedures to include a review of the employees' job assignments, duties, and additional payroll records. Our review of these records disclosed that the duties and job assignments for two of the four employees charged to the program were consistent with the program objectives and thus it appears that their efforts were consistent with the costs charged to the program.

However, for the other two employees, District records provided for audit did not evidence that the employees' time and effort were consistent with salary and benefit costs totaling $11,281 charged to the program. One of the employees was an elementary school principal who also worked as an adult education teacher throughout the school year. For this employee there were no records such as timesheets, timecards, or job/class assignments that would support charges to the program totaling $9,031. For the other employee, who was classified as an adult education teacher, class assignment and class attendance records disclosed that the instructor's assignment and costs charged to the program totaling approximately $2,250 were not related to the objectives of the adult education program.

Recommendation: The District should document to the grantor (Florida Department of Education) the allowability of questioned costs totaling $11,281 or the costs should be restored to the program. In addition, the District should enhance its procedures in the adult education program to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives.

District Contact Person: Michael J. Henriquez, Chief Academic Officer

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Test and Provisions – Highly Qualified Teachers. Title 34, Section 200.55, Code of Federal Regulations, requires that school districts ensure that school teachers who teach core academic subjects in a program supported with the Title I funds, such as a Title I schoolwide program, including teachers employed by the District to provide services to eligible private school students, be highly qualified (HQ). Core academic subjects include English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography. Title 34, Section 200.56, Code of Federal Regulations, stipulates among other things, that a teacher must be certified in each core academic subject assigned, generally through State testing or additional coursework, to be HQ. Further, Section 1111(h)(6)(B), Public Law 107-110, requires that parents be notified when their child has been assigned to, or has been taught by a non-HQ teacher for four or more consecutive weeks.

District records provided to the Florida Department of Education (FDOE) showed that as of April 1, 2009, 3.9 percent of core academic courses were being taught in Title I schools by non-HQ teachers who had been hired after the 2002-03 fiscal year. The No Child Left Behind program monitoring review performed by FDOE for the 2008-09 fiscal year was issued on August 7, 2009, and disclosed that the District was not in compliance with the requirement that all teachers teaching a Title I program be HQ. Further, the monitoring review disclosed that the District did not properly notify parents whose children were taught by non-HQ teachers, contrary to Federal law.

The District's human resource department was aware that the District should employ only HQ teachers for the Title I program and, while certain exceptions were noted, the District made efforts to comply with these requirements. As required by FDOE, the District implemented a corrective action plan to address the findings of the monitoring review. As part of the corrective measures, parents at two schools were notified that their children had been assigned to or had been taught by non-highly qualified teachers or paraprofessionals. In addition, the District provided training for paraprofessionals in order for them to pass qualifying tests and provided teachers with study guides to assist them in passing the required subject area test. These efforts resulted in some teachers and paraprofessionals becoming highly qualified. On January 27, 2010, FDOE communicated to the District that based on their review of the system improvement plan and supporting documentation provided by the District, it was determined that appropriate corrective measures had been taken to resolve all findings. Having HQ personnel enhances the District's ability to properly educate Title I students and contributes towards meeting the adequate yearly progress standards set by the United States Department of Education.

Recommendation: The District should continue its efforts to ensure that all teachers hired to teach core academic subjects in Title I schools are HQ and that parents receive timely notification when their children have been assigned or have been taught by non-HQ teachers or paraprofessionals.

District Contact Person: Michael J. Henriquez, Chief Academic Officer

Federal Awards Finding No. 4:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education – Grants to States (CFDA 84.027)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Matching, Level of Effort, Earmarking – Early Intervention Earmark. The Individuals with Disabilities Education Act (IDEA) provides funds for services to children with disabilities, including early intervention, special education, and related services. Title 34, Section 300.226, Code of Federal Regulations, limits the District to use no more than 15 percent of the amount received under Part B of the Act, in combinations with other amounts, to develop and implement early intervention services for students who are not currently identified as needing special education or related services. Also, the United State Office of Management and Budget *Circular A-87* provides, in part, that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation.

District records indicate that for the 2008-09 fiscal year the District incurred costs totaling $202,737, which was within the required 15 percent allocation, for early intervening services, of which approximately $201,603 were for employee salaries and benefits. Upon inquiry, we were informed by the Director of Student Services and Exceptional Student Education that these payroll costs were for instructional assistants and behavior specialists who worked most of their time in classrooms with a majority of general education students in order to ensure that participating students were offered individual assistance and support within a regular classroom setting. The Director also informed us that the instructional assistants and the behavior specialists spent an estimated 65 and 48 percent of their time, respectively, in activities related to its early intervention services within regular classroom settings. This estimation served as the basis for the salaries and benefits of the instructional assistants and behavior specialists, totaling approximately $134,206 and $67,397, respectively, for the early intervention services of the Special Education program.

However, District records did not initially include documentation such as an employee time allocation analysis, personnel activity reports, or semiannual certifications disclosing the distribution of the employee time and effort among different activities or cost objectives that would support the allocation of the salaries and benefits to the Special Education program for early intervention service. In response to our request, the Director of Student Services and Exceptional Student Education subsequently provided us with certifications signed by the employees and school principal certifying that the amounts paid from the Special Education program were appropriate based on the services provided by these employees.

Recommendation: The District should enhance its procedures to ensure charges to the Special Education program for early intervention services are supported by the required documentation, such as personnel activity reports, semiannual certifications, or similar documentation such as an employee time allocation analysis, to evidence that the amounts charged to the program are equivalent to the time and effort spent by employees in such activities.

District Contact Person: Michael J. Henriquez, Chief Academic Officer

Federal Awards Finding No. 5:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster (CFDA No. 10.553, 10.555 and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Reporting and Eligibility. The District receives monthly Federal reimbursements for the School Breakfast and National School Lunch Programs through the Florida Department of Education based on the number of student meals reported in the free, reduced price, and full price categories. Title 7, Section 210.8(a), Code of Federal Regulations, provides that each school food service authority establish internal controls to ensure the accuracy of lunch counts prior to the submission of the monthly reimbursement claims. These internal controls shall include comparison of daily free, reduced price, and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price, and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggests the likelihood of lunch counting problems.

Financial Statement Finding No. 6 addresses control deficiencies relating to the District's food service program. These control deficiencies indicate meal counting problems, which impacts the administration of the Federally-funded food service program.

Recommendation: The District should strengthen internal controls to ensure accurate meal counts are reported prior to the submission of the monthly claims for reimbursement.

District Contact Person: Michael Kinneer, Chief Financial Officer

OTHER MATTER

On March 27, 2009, the Board contracted with an independent auditing firm to perform forensic accounting investigative services relating to allegations of questionable purchasing card charges, cash receipts in the Adult Education Department, employee travel, and allegations of a hostile work environment/fear of intimidation. Additionally, the Board requested the auditing firm to provide certain factual findings with respect to the former Superintendent and other selected District employees to assist the Board in taking potential disciplinary actions and to make other employment decisions. The auditing firm presented their final forensic investigation report to the Board on August 18, 2009. A copy of the final forensic investigative report is on file in the District's administrative office.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS,** the District had taken corrective actions for findings included in our report No. 2009-209.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

MONROE COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

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
2007-150 (3)	Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553); National School Lunch Program (CFDA No. 10.555); and Summer Food Service Program for Children (CFDA No. 10.559)] / Activities Allowed or Unallowed.	The District was not able to provide supporting documentation for the allocation of electrical, water, garbage, and custodial services charged to the Child Nutrition Cluster totaling $205,057. Also, for one payment issued to a contractor in the amount of $9,800, the payment voucher did not document the actual number of days and times worked by the contractor.	Corrected	Corrective action was taken which was deemed satisfactory by the Florida Department of Education (FDOE) as noted in a letter dated May 15, 2007. FDOE did not require the repayment of any questioned costs.
2007-150 (4)	Even Start - State Educational Agencies (CFDA No. 84.213) / Matching, Level of Effort, Earmarking	Our review of the District's required matching of $230,593 for three Even Start programs disclosed that the District's matching consisted only of costs and contributions totaling $142,476, which was $88,117 less than the required matching. In addition, deficiencies were noted in documentation for claimed in-kind contributions totaling $75,746, resulting in questioned costs of $391,688, or 71 percent of the Federally-funded costs.	Corrected	The District received a waiver letter of determination from the United States Department of Education on January 12, 2010. This letter was sent to FDOE. In addition, the program has been discontinued as stated in prior years.
2008-146 (1)	Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553); National School Lunch Program (CFDA No. 10.555); and Summer Food Service Program for Children (CFDA No. 10.559)] / Allowable Costs/Cost Principles.	The District records did not evidence the basis upon which charges for electrical, water, garbage and custodial services were allocated to the Child Nutrition Cluster program, resulting in questioned cost of $160,839.	Partially corrected	In a letter dated December 15, 2009, FDOE decided that $160,839 should be restored to the Food Service Program. Subject to Board amendment of the 2009-10 fiscal year budget, the District will restore the funds.
2009-209 (1)	Adult Education - Basic Grants to States (CFDA No. 84.002); Career and Technical Education - Basic Grants to States (CFDA No. 84.048); and Tech-Prep Education (CFDA No. 84.243) / Allowable Costs/Cost Principles.	The District records did not evidence the basis or authority for certain costs which resulted in questioned costs totaling $31,483.16 (CFDA No. 84.002 - $12,688.46 for the 2007-08 fiscal year, and $12,645.73 for the 2008-09 fiscal year; CFDA No. 84.048 - $5,608.80; and CFDA No. 84.243 - $540.17).	Not corrected	A new director of adult education has implemented new procedures and has been trained by the District grants coordinator. In addition, he will closely monitor the grants to ensure that the purchases and travel match the requirements. The director also has previous experience in another school district managing grants.
2009-209 (2)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) / Allowable Costs/Cost Principles - Documentation of Time and Effort.	The District needed to enhance its procedures for maintaining documentation to support the allocation of salaries and benefits to the Twenty-First Century Community Learning Centers. Semiannual certification were not prepared for two employees paid 100 percent from the program. In addition, periodic personnel activity reports were not prepared for seven employees paid partially from the program. Other District records indicated that the effort by the employees was consistent with the costs charged to the program.	Corrected	All Twenty First Century Community Learning Centers personnel are following the Florida Substitute Reporting Sytem. All personnel paid through the program either complete a personnel activity report or semi-annual form based on the percentage of their salary charge to the grant.

EXHIBIT A

MANAGEMENT'S RESPONSE

DR. JOSEPH P. BURKE
Superintendent of Schools

"Student Success,
Whatever It Takes"

March 22, 2010

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

Subject: Auditor General Preliminary & Tentative Audit Findings for F/Y Ended June 30, 2009

Dear Mr. Martin:

The context for this audit response by the management team of Monroe County School District (MCSD) includes the suspension of the former Superintendent by the Governor of the State of Florida on June 11, 2009, and the subsequent conviction of the Superintendent on three felony counts on August 28, 2009. The new Superintendent appointed by the Governor, assumed office on August 24, 2009.

The Superintendent recommended that the School Board appoint an Audit and Finance Committee, comprised of citizens with extensive business or accounting experience, on September 8, 2009. The committee began its functions on December 14, 2009. The Superintendent removed key personnel involved in financial mismanagement in October, 2009. More personnel actions will be taken within 90 days of this response.

The new Chief Finance Officer assumed full-time duties on January 4, 2010 and has begun to institute new fiscal procedures and practices. The School Board adopted a new Ethics policy on December 15, 2009.

I would like to thank the AG staff for the professional matter in which the audit was conducted.

Sincerely,

Joseph P. Burke

Dr. Joseph P. Burke
Superintendent of Schools
Attachment
Cc: School Board Members
Audit & Finance Committee
MCSD Administrative Staff

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Administrative Response to Auditor General Preliminary & Tentative Audit Findings and Recommendations for F/Y Ending June 30, 2009

MATERIAL WEAKNESSES

The Monroe County School District agrees that there are material weaknesses and significant deficiencies that must be corrected. Some district-wide, global actions were taken that the management team expects will provide some remedies.

- The suspension of the former Superintendent by the Governor of the State of Florida on June 11, 2009.
- The new Superintendent appointed by the Governor, assumed office on August 24, 2009 and on September 8, 2009 recommended that the School Board appoint an Audit and Finance Committee, comprised of citizens with extensive business or accounting experience.
- The Audit and Finance Committee began its functions on December 14, 2009.
- The Superintendent removed key personnel involved in financial mismanagement in October, 2009. More personnel actions will be taken within 90 days of this response.
- The new Chief Finance Officer assumed full-time duties on January 4, 2010 and has begun to institute new fiscal procedures and practices.
- The School Board adopted a new Ethics policy on December 15, 2009.

Finding No. 1: District Expenditures

Controls over certain Adult Education Program purchases, reimbursements to employees for purchases of District materials and supplies, and other expenditures could be enhanced to prevent, or detect and correct, errors or fraud.

Response: Management will ensure that District procedures operate effectively. Beginning in July 2009, the District began a series of training sessions to educate personnel in the proper procedures for purchasing and payments. An anti-fraud policy was adopted by the Board in April 2009.

Finding No. 1A: Adult Education Vendor Purchases

Response: The School District agrees with these findings. Since March 3, 2009, a segregation of duties has been put in place to ensure purchases are made with a district and public purpose. A purchase must be approved by the coordinator before the purchase order is entered into TERMS. Another employee will enter the request in TERMS after official approval by the coordinator. District staff will also be required to approve the purchase order.

An insurance claim was presented to the District's carrier and $100,000 release of funds will be presented at the March 23rd Board meeting. The District will consult with legal counsel to determine other action that may be appropriate.

Finding No. 1B: Employee Reimbursements

Response: It is the policy of the current coordinator of adult education that no employee will be reimbursed for the purchase of products, materials or supplies. All products needed for adult and career education must have an approved purchase order on file before any purchase.

The District will consult with legal counsel to determine action that may be appropriate for any reimbursement of an expense not for a public purpose.

All monies involved in these findings were originally secured through private donation, Keys Center Academy (KCA) or school district fundraising event. None of the dollars originated in the district's general fund. Such donation funds are now being deposited directly into Monroe County Educational Foundation's (MCEF) KCA discretionary budget. KCA staff is now reimbursed for routine expenditures by check from MCEF, whose non-profit 501.C.3 status enables Keys Center Academy to provide proof of donation for the purpose of tax credit to those private donors.

Finding No. 1C: Controls over General Expenditures

Response: The District has enhanced its control procedures to ensure that payments are made in accordance with contract terms and conditions. The District will competitively bid purchases when required. The District will ensure that payments are properly approved and processed to include proper documentation of receipt of goods and services.

Finding No. 1D: Travel Expenditures

Response: To insure that travel expenditures are necessary; sufficiently and appropriately documented; and are made in accordance with Section 112.061, Florida Statutes, and Board Policy, the District has devised new controls and procedures and will instruct the District employees accordingly. In regard to travel vouchers, all travel will require a travel voucher signed by the employee and signed by the employee's supervisor and, where applicable, receipts must be attached to the voucher.

Finding No. 2: Ad Valorem Taxation

The District used capital outlay millage levy proceeds, totaling $711,453.52, to pay for items that were not specifically authorized by Section 1011.71, Florida Statutes. Additionally, contrary to Section 1011.71, Florida Statutes, the District's published notice of the tax levy and its annual capital outlay budget did not clearly identify the projects which were anticipated to be funded with the estimated tax levy.

Response: The District will fully comply with the law effective with the fiscal year 2010-2011 tax notice. The District will document the allowability of the questioned costs to the Florida Department of Education.

Finding No. 3: School Capital Outlay Sales Surtax

The District used its school capital outlay sales surtax proceeds, totaling $293,966.52, for purposes contrary to Section 212.055(6), Florida Statutes.

Response: The District has restored $117,629.33 to the Capital Projects funds and will address the allowability of the $176,337.19 with the Florida Department of Education.

Finding No. 4: Financial Reporting
Improvements could be made to ensure that account balances, transactions, and note disclosures are properly reported on the financial statements.

Response: The District will establish effective review procedures to ensure the annual financial report is accurate and complete in accordance with Generally Accepted Accounting Principles.

SIGNIFICANT DEFICIENCIES

Finding No. 5: Investments
Controls could be enhanced to ensure that investments are made pursuant to competitive selection procedures consistent with Board policy, and that adequate records are maintained for investments.

Response: The District agrees with this recommendation and has met with financial services firms to arrange for competitive bidding of investments. In addition, the District met with the bank to resolve the master repurchase agreement issues. The District has obtained a corrected, signed master repurchase agreement from the bank and has forward the agreement to the District's Legal Department for review. The District is now receiving investment transaction confirmations daily.

Finding No. 6: Food Service Revenues
Improvements were needed in controls over food service collections.

Response: The District is in the process of establishing a new effective review procedure to ensure that revenue will be recorded properly and reconciled on a monthly basis.

ADDITIONAL MATTERS

Finding No. 7: Payroll Processing – Time Records
Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented, and compensation is consistent with Board intent.

Response: The two teachers being paid for concurrent class schedules were suspended and the matter was referred to the appropriate authority for disposition.

It is District process and procedure to have all instructional staff sign in and out at their respective worksite with the actual times noted. It has also been the District's directive to administrators that they are to review these daily logs as part of the approval process for submission of leave forms and payroll.

Finding No. 8: Gasoline and Diesel Fuel Usage
Improvements could be made in control procedures over gasoline and diesel fuel inventories.

Response: Management concurs with the findings and has issued directives to ensure that the controls provided by the system are strictly adhered to.

Finding No. 9: Cash Collections – After School Day Care Program
Improvements could be made in controls over the collection of After School Day Care fees.

Response: The District agrees with this recommendation and has taken the necessary steps to implement new procedures to collect payments and make timely deposits. The Board will establish appropriate policies and procedures for the Day Care Program, which will include collection action on overdue accounts.

Finding No. 10: Cash Collections – Adult Education Department

Controls over Adult Education Department cash collections need to be improved.

Response: As a result of the findings, the adult education department has procedures in place to ensure money collected is deposited in a timely fashion. All student fees are now paid with a cashier's check or money order to limit fraud. Around May 14, the School Board agreed to allow adult education to deposit fees directly into First State Bank of the Florida Keys. There is a separation of duties in fee collections and deposits. The District personnel will perform a fee audit.

Finding No. 11: Collection of Social Security Numbers

To ensure compliance with Section 119.071(5)(a), Florida Statutes, policies and procedures could be enhanced for notifying individuals of the need for and use of social security numbers.

Response: The District has complied with the requirement to give written notification of the purposes for which social security numbers are requested. This need is reviewed by the administration annually. This information has been incorporated into the written instructional and notifications of the online application process for employment, vendors and volunteers within the district. Posted notification have also been placed in staff areas of all schools and support buildings and posted on bulletin boards within the administration building. Copies are readily available at all times.

Finding No. 12: Student Diplomas

Improvements could be made in controls over ordering, processing, and distributing high school diplomas.

Response: The district has developed new procedures that designate multiple personnel to handle the ordering, receiving, securing and distributing of diplomas. By having more than one person handle these responsibilities, the district can ensure greater accuracy and security. The district will ensure these procedures will be disseminated to each of the three high schools.

Finding No. 13: Property Insurance Coverage

A formal plan to fund the property self-insurance program needs to be established for wind damage.

Response: The District will review other governmental entities' plans for meeting deductibles for wind damage coverage. The District will utilize such information in determining how a formal plan for the coverage of uninsured wind damage could be established.

Finding No. 14: Self Insurance Plan Funding – Health Program

For the 2007-08 and 2008-09 fiscal years, District contributions to the health self-insurance program were $962,676.58 and $955,435.02, respectively, less than the Board-required contributions.

Response: The District will ensure that contributions to the District's self-insurance fund are consistent with Board approved rates.

Finding No. 15: Construction and Day-Labor Project Administration

Controls over construction and day-labor projects could be enhanced.

Response: Effective on all future projects, the Program Manager will require the Construction Manager (CM) to provide copies of all contractor/subcontractors contracts when entered into by the CM and will not process any pay requisitions from the CM until all documentation pertaining to subcontractors has been provided. All future time & material projects will include copies of timecards for the contractors' employees and documentation of the time the equipment is on site. This will be a requirement of the Project Manager having oversight of the job to provide all back up documentation prior to signing off on the invoices for payment. These invoices will not be processed for payment until all required documentation has been received. Payments will be made consistent with the documentation. Documentation of goods received will be processed by a person with direct knowledge of the receipt and with authority over the program/project. Documentation will be retained properly for all quotes. A check for the $120,000 agreed amount was received from the City on January 15, 2010. In the future the Facilities Department will ensure that all agreements are in writing and approved by the Board prior to the commencement of the work.

Finding No. 16: Maintenance Department Purchases

Procedural improvements could be made for Maintenance Department purchases to ensure that purchases are made in accordance with bid requirements and contract terms are properly supported by vendor invoices, and the receipt of goods and services is evidenced by authorized persons.

Response: The finding has been shared with the Maintenance Staff to implement the proper procedure to receive materials and supplies, with proper signatures by authorized personnel. The vendors involved were specifically advised that if they dropped off supplies without obtaining the authorized signatures they would not be paid. The Maintenance Department will work with the Purchasing Department to follow the bid process in a timely manner to allow the District to receive the best prices. The District is no longer using the P-cards, but the Staff has been told to establish and follow proper procedures to assure the materials and supplies received are supported by the proper documentation.

Finding No. 17: Qualified Public Depositories

The District maintained approximately $500,000 in two certificates of deposit at a financial institution that was not approved as a qualified public depository, contrary to Section 280.03, Florida Statutes.

Response: All District funds are currently maintained in a qualified public depository as is required by law

Finding No. 18: Loans to Employees

The Board approved promissory notes for no interest loans, totaling $7,000, to three employees, contrary to Article 7, Section 10 of the State Constitution.

Response: The Board no longer makes loans to employees.

Finding No. 19: Information Technology – Approval of Requests

The District's procedures for requesting and approving services from the Information Technology Services (ITS) department needed improvement.

Response: The district implemented during the 08-09 school year to utilize the online help request system. This system allows us to track request and assign appropriate personnel. Upon completion of the issue the issue is closed. At that time if the user is not satisfied with the request they have 2 options, 1) they have the ability to re-open the existing request. 2) Issue a new help request. The 2010 District Technology plan when completed and board approved should have in the document where ALL requests for I.T. services (network, business services, etc) have to be submitted via the online Help Request System. We are updating the wording on the help request web page to clarify the process when the issues/requests are closed and the options available to the user. Also, we are currently planning on upgrading existing help desk solution to a more robust version to assist in the tracking of user satisfaction and for district reporting and tracking.

Finding No. 20: Information Technology – Disaster Recovery Plan

The District's disaster recovery plan needed improvement.

Response: The District has revised and update the disaster recovery and backup plan as recommended by the AGO's IT auditor (June 2009). The revised disaster recovery plan and backup plan are in this year's draft District Technology Plan. These changes were also sent to the AGO in August 2009.

The changes are available upon request and are highlighted below.

The following have been addressed in the revised plan:

- Identification of critical applications, programs, and data files – servers are identified that contain data, applications, and programs (server list available upon request)
- Predetermined priority for application processing (priority of backup established and identified)
- Minimum computer configuration, associated communications systems and applications software, physical facilities, and security necessary for processing critical systems. (Minimum computer configuration, systems and applications software identified, physical sites identified included in updated disaster recovery and backup plan)
- Identification of personnel, their back-ups, and their responsibilities in the event of a disaster. (IT personnel has been identified as Backup and Restore specialist and resides in IT Dept in Administration Bldg)

Finding No. 21: Information Technology – User Access Management

The District's management of user access privileges needed improvement.

Response: A separate document has been created entitled, *TERMS Security Procedures*, outlining the system defaults and form requirements for new and established users. In addition, all users that previously had access to input and approve requisitions have been changed. We no longer allow users to enter requisitions and to also have approval authority. Of the 25 users mentioned in the audit finding most had been corrected prior to the end of the 2009 year and all remaining were changed to the new security protocol by end of July 2009.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Finding No. 1: Allowable Costs / Costs Principles

Controls over charges to Federal programs could be improved to help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities.

Federal Finding No. 1A: Adult Education Program

Response: Since the new director has taken over adult and career education, he closely monitors the grants to insure that the purchases and travel match the requirements. He has been trained, by the district grants coordinator, the proper procedures and guidelines set forth by the office of grant management at the state and federal level. A binder is located in the director's office with all necessary documentation for an internal or external audit. The director also has previous experience in another school district managing grants.

Federal Finding No. 1B: Title I Program

Response: Although the MCSD believes we were in compliance with the federal requirements, we will take the necessary corrective action below to maintain appropriate documentation.

Beginning with the current 2009-10 school year, the Title I office will take corrective action by no longer allowing each provider to use its own form. The Title I Office is implementing a new standard attendance form for all SES Providers that includes attendance information that clearly delineates the date of service, the beginning and ending times, and the number of hours for reading, math, and science with student or parent initials for each session. The one online provider, ATS, will continue to use their electronic form.

Since the provider made the documentation available to the State during the 2008-09 NCLB monitoring visit and the DOE found the provider to be in compliance with all requirements, MCSD felt that this should have been sufficient evidence to verify students were receiving appropriate services from One-on-One.

Federal Finding No. 1C: Improving Teaching Quality Program

Response: MCSD agrees with this finding and we will take the necessary corrective action below to monitor contracts, purchase orders and staff reimbursements.

MCSD will establish guidelines or procedures for proper information necessary for consultant services. These guidelines will include all the specific requirements related to the services rendered.

MCSD has implemented a new procedures to be sure all staff members that have begun the process will be reimbursed upon proof of payment and a passing grade or test score. The Employee, Director of Human Resources, Project Director for Title II and the Reading Specialist or Title III Director (as appropriate) will sign a pre-approval form as appropriate. A Purchase order will then be opened in that person's name to encumber the funds until such time the individual forwards the appropriate paper work to Human Resources. HR will in turn forward it to the Title II Project Director for payment. (See attached pre-approval form.)

MCSD appropriated on the FLDOE approved Title II DOE 101 $24,000 to Function 6400, Object 360 for the Teachscape On-line Resources for 12 schools. A letter signed by The Chief Academic Officer dated June 26, 2008 states the intent to enter into the contract with Teachscape. When the invoice was received district program specialists were off during the month of July. In addition, entitlement grants are submitted at the end of June and pre approval typically takes place in August. MCSD will enhance procedures to open the purchase orders prior to the invoice and upon approval of the purchase.

Federal Finding No. 2: Allowable Costs / Costs Principles – Documentation of Time and Effort

Procedures could be improved to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives.

Response: MCSD agrees with this finding and we will take the necessary corrective action below to document time and effort of those employees working in a federal program.

For future reference, the new director of adult education will consult the director of human resources and the district grant coordinator of any positions that will be moved or replaced to insure that the personal is properly placed. The new adult education director has been trained, by the district grants coordinator, the proper procedures and guidelines set forth by the office of grant management at the state and federal level. PAR forms are collected by the director and submitted to the district. A copy is retained at the office of the director of adult and career education. The director also has previous experience in another school district managing grants.

Federal Finding No. 3 Special Test and Provisions – Highly Qualified Teachers

Controls could be enhanced to ensure that all teachers hired to teach core academic subjects in Title I schools are highly qualified and that parents receive timely notification when their children have been assigned or have been taught by non-highly qualified teachers or paraprofessionals.

Response: MCSD agrees with this finding and the District will continue its efforts to ensure that all teachers hired to teach core academic subjects in Title I schools are HQ.

In the event that a Title I school is unable to hire an HQ teacher or paraprofessional, the school will notify parents in a timely manner that their children have been assigned or have been taught by non-HQ teachers or paraprofessionals.

According to our October 2009 FTE survey 2 data, 100% of the teachers and staff working in our Title I schools are highly qualified.

Federal Finding No. 4: Special Tests and Provisions – Early Intervention

Instances were noted in which personnel activity reports were not properly maintained to evidence that the amounts charged to the Special Education program were equivalent to the time and effort spent by employees in such activities.

Response*:* MCSD is no longer implementing the model used during the 2008-2009 school year. Currently, MCSD has allocated 100% of our state approved CEIS funds to support RTI coaches. In the future, if necessary, a time allocation system will be provided showing the percentage breakdown of an employee's time and effort will match the designated cost objectives and funding sources.

Federal Finding No. 5: Reporting

Controls could be strengthened to ensure accurate meal counts are reported prior to the submission of the monthly claims for reimbursement.

Response: The District is taking corrective action. Revenue will be recorded properly. The reports will be reconciled and the Food Service Program appropriately monitored.