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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2008-09 FISCAL YEAR AUDITS OF DISTRICT SCHOOL BOARDS

STATE OF FLORIDA
AUDITOR GENERAL
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REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IN 2008-09 FISCAL YEAR AUDITS OF DISTRICT SCHOOL BOARDS

SUMMARY

This report provides a summary of significant financial trends and findings identified in the audits of the 67 district school boards. The audits of 51 school districts were performed by our office and the audits of 16 school districts were performed by other independent certified public accountants for the 2008-09 fiscal year. The audit reports prepared by the other independent certified public accountants were required to be filed with us no later than June 30, 2010.

Significant Financial Trends

- **At June 30, 2009, school districts Statewide had an average level of general fund unreserved fund balance that was 8.34 percent of general fund revenues (financial condition ratio), which represents a slight increase from the average financial condition ratio for the previous fiscal year. Of the 67 school districts, 5 had ratios that were less than 3 percent at June 30, 2009. In these circumstances, these 5 school districts have significantly less resources available for emergencies and unforeseen situations than other school districts.**

Significant Findings

- **Sixty-four of 67 audit reports included audit findings addressing weaknesses in internal control or instances of noncompliance with applicable laws or rules. Fifteen audit reports included one or more findings that were considered to be material weaknesses, which represents a significant increase from the seven audit reports that included material weaknesses in the previous fiscal year. Of the 15 audit reports, 2 also cited instances of material noncompliance.**

BACKGROUND

Sections 11.45 and 218.39, Florida Statutes, provide for audits of district school boards to be performed annually by the Auditor General or by an independent certified public accountant. The scope of these audits includes an examination of the financial statements, the issuance of a report on compliance and internal control in accordance with government auditing standards, and the issuance of a report on compliance and internal control relative to Federal awards in accordance with United States Office of Management and Budget *Circular A-133*.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant findings and financial trends identified in school district audit reports.

FINANCIAL TRENDS

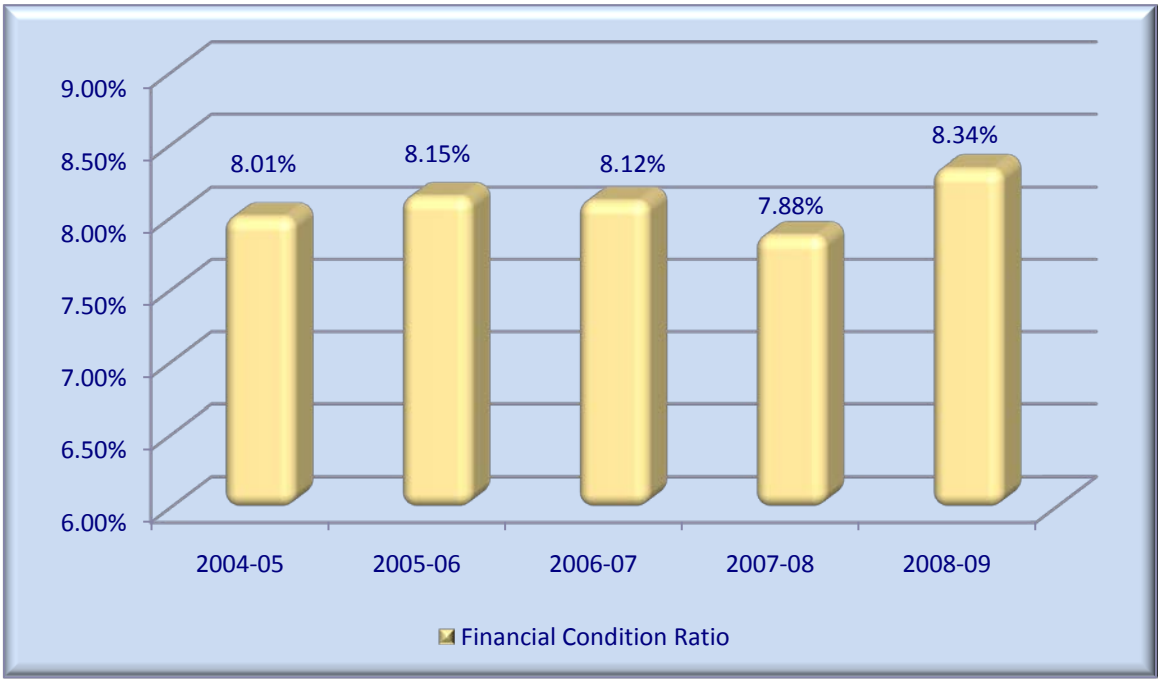
Section 11.45(7)(f), Florida Statutes, requires us to report significant financial trends as identified in audits of district school boards. This requirement, along with other inquiries, evidences that critical interest exists to understand and address factors that affect the financial condition of school districts.

The general fund accounts for the majority of the operating resources and expenditures of school districts, and the majority of the operating resources for K-12 educational programs. Accordingly, the general fund is used as the primary basis for measurement of financial condition.

Financial Condition Trends

The financial condition measure used in this report is the ratio of the unreserved fund balance to the revenues in the general fund (see Exhibit 10). The average financial condition ratio was 8.34 percent at June 30, 2009, which is a slight increase from the average financial condition ratio for the previous fiscal year, but is generally consistent with the other fiscal years in Exhibit 1 below.

Exhibit 1
Average Financial Condition Ratios
for School Districts[1]

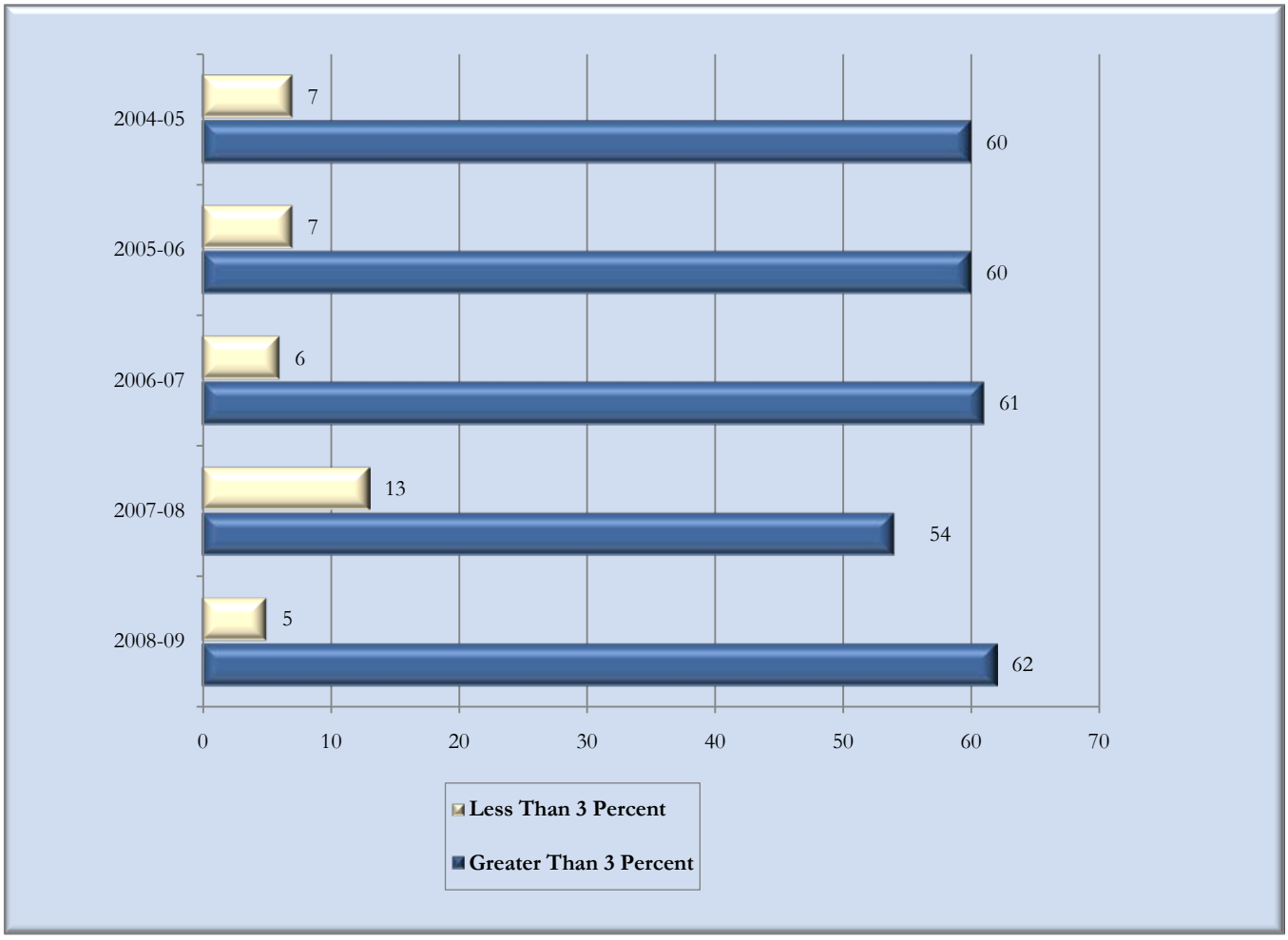


Source: Auditor General

[1] The Statewide financial condition ratio averages for the 2004-05 and 2005-06 fiscal years were originally calculated to limit the skewing of the average by relatively small school districts that had financial condition ratios well outside the normal range. For those fiscal years, the financial condition ratios included in the Statewide average calculation were capped at 20 percent per year. Without consideration of the 20 percent cap per year, the percentages would have been 8.40 and 8.66 percent for the 2004-05 and 2005-06 fiscal years, respectively.

As described under the subheading **Financial Condition Background**, prior to the 2008-09 fiscal year, the financial condition ratio used in the analyses discussed in this report was 2.5 percent. Effective for the 2008-09 fiscal year, pursuant to Section 1011.051, Florida Statutes, school district superintendents were required to notify the Commissioner of Education and respective school board if the general fund unreserved fund balance in the district's approved operating budget was projected to fall below 3 percent of projected general fund revenues during the current fiscal year. Consequently, for consistency with this statutory requirement, Exhibit 2 shows the number of school districts with ratios of less than 3 percent during the five-year period ending with the 2008-09 fiscal year.

Exhibit 2
Number of School Districts with Financial Condition Ratios Above and Below 3 Percent



Source: Auditor General

As indicated in Exhibit 2, five school districts had financial condition ratios that were less than 3 percent at June 30, 2009. In these circumstances, these school districts have significantly less resources available for emergencies and unforeseen situations than other school districts.

Exhibit 3 identifies those school districts whose financial condition ratio was less than 3 percent.

Exhibit 3
School Districts with Financial Condition
Ratios[2] Less Than 3 Percent

School District	Financial Condition Ratio - 06-30-2009	Number of Consecutive Years Ratio Under 3%
Highlands	2.01%	1
Jefferson	-8.05%	2
Manatee	2.96%	2
Miami-Dade	2.36%	3
Taylor	0.48%	6

Source: Auditor General

The financial condition ratio of several other school districts was under the above-noted threshold during the five-year period, but not at June 30, 2009. Historically, school districts that experience a weak financial condition implement measures that generally restore their financial condition to a favorable position within one or two fiscal periods.

As noted above, the financial condition ratio of one school district (Taylor) was below the threshold for six consecutive years. During the 2007-08 fiscal year, the School District notified the Commissioner of Education and Legislative Auditing Committee of its financial condition and obtained assistance from the Florida Association of District School Superintendents (FADSS) in developing a plan for improvement. In the 2009-10 fiscal year, the School District continued implementation of the plan to eliminate certain instructional, noninstructional, and administrative positions and decrease bus routes. The financial condition ratio for the School District improved from negative 6.05 percent at June 30, 2008, to the positive 0.48 percent at June 30, 2009, shown on Exhibit 3; however, the School District may be required to reduce its general fund unreserved fund balance to repay certain questioned costs totaling approximately $1.9 million. The internal control deficiencies noted in the audit report[3] for the School District that may have contributed to the financial condition are further discussed under the subheading **Material Weaknesses and Material Noncompliance** in this report.

The financial condition ratio for another school district (Jefferson) declined from negative 0.38 percent at June 30, 2008, to the negative 8.05 percent at June 30, 2009, shown on Exhibit 3, and the School District also obtained assistance from FADSS to prepare a financial recovery plan. On March 9, 2009, the School District submitted a letter notifying the Commissioner of Education that the general fund unreserved fund balance was projected to fall below 2 percent of projected general fund revenues and the School Board approved the recovery plan. The plan included such measures as the elimination of certain instructional, noninstructional, and administrative positions; reduced work hours for noninstructional positions; a cap on the health supplement paid by the School District; the sale of land; and decreased bus routes. Pursuant to Section 1011.051, Florida Statutes, the School District notified the Commissioner of Education on April 8, 2009, of a projected general fund unreserved fund balance deficit of approximately $500,000 at June 30, 2009. Further, on April 22, 2009, the Florida Department of Education appointed a three-member financial emergency board to provide support and financial oversight to the School

[2] Ratios were calculated based on the "purchases" method of accounting for inventory (i.e., inventory on hand at fiscal year-end is reported as an asset and reservation of fund balance) because the "purchases" method results in a more conservative presentation of the available fund balance. The ratios for the school districts, as calculated based on amounts reported on those school districts' financial statements, were adjusted for purposes of Exhibit 3 because the school districts did not use the "purchases" method in preparing their financial statements.
[3] Report No. 2010-170, dated March 26, 2010.

District, pursuant to Section 218.503(3), Florida Statutes. Internal control deficiencies noted in the audit report[4] for the School District, and further discussed under the subheading **Material Weaknesses and Material Noncompliance** in this report, have not been conducive to effective management control over the School District's resources and may have contributed to the fund balance deficits. The general fund unreserved fund balance could be further reduced if the School District is required to repay questioned costs noted in the audit report and previous audit reports, totaling in excess of $245,000.

During the 2008-09 fiscal year, pursuant to Section 1011.051, Florida Statutes, ten school districts (Bradford, Collier, Gadsden, Glades, Jefferson, Levy, Miami-Dade, Taylor, Volusia, Washington) submitted notifications to the Commissioner of Education that the general fund unreserved fund balance in their operating budget was projected to fall below the 3 percent threshold. During the 2009-10 fiscal year, only three school districts (Gadsden, Jefferson, and Taylor) submitted these notifications, representing a significant decrease in notifications from the previous year.

Factors Impacting Financial Condition

In our analyses of school district financial trend data, we identified factors that impact on the financial condition of school districts and that may increase the risk of weak financial condition. While no single factor is identified as a guaranteed predictor of financial condition, factors such as declining property values, declining or increasing enrollment, and school and class sizes require the exercise of effective financial management to limit the impact on the school districts' financial condition.

Declining Property Taxes. As part of the overall general economic decline, property values have decreased Statewide. According to the Florida Department of Revenue, Statewide property values declined from approximately $1.8 trillion in 2008 to $1.6 trillion in 2009, a decrease of 11 percent. As a result, Statewide property tax levies for school board operations declined from approximately $13 billion for the 2007-08 fiscal year to $12.1 billion for the 2008-09 fiscal year, a decrease of 7 percent. These property taxes are the primary source of local revenues for school districts.

Declining Enrollment. Although Statewide enrollment increased from the 2003-04 fiscal year to the 2008-09 fiscal year, a decline in student enrollment of approximately 18,600 was noted from the 2007-08 fiscal year to the 2008-09 fiscal year. This decline was caused, in part, by the decrease in the general population of Florida, which is the first general population reduction since the year 1946. The Bureau of Economic and Business Research at the University of Florida estimated that the State's population dropped from 18,807,219 to 18,748,925, or 58,294, from April 2008 to April 2009.

Exhibit 4 shows 26 school districts that had declining enrollment, of more than 1 percent, over the five-year period. School districts in this situation, particularly the smaller school districts, experience difficulty with these gradual enrollment declines as it is difficult to reduce instructional staff because often no one grade or class within an individual school may be affected enough to justify the reduction of instructional staff.

[4] Report No. 2010-146, dated March 16, 2010.

Exhibit 4
School Districts with Declining Enrollment over Five Years

School District	2008-09 Unweighted FTE*	2003-04 Unweighted FTE*	Decrease	Percentage Decrease
Jefferson	1,105.68	1,413.71	(308.03)	-21.79%
Madison	2,733.29	3,218.76	(485.47)	-15.08%
Bradford	3,235.50	3,726.32	(490.82)	-13.17%
Monroe	7,918.84	8,923.32	(1,004.48)	-11.26%
Taylor	2,954.88	3,226.84	(271.96)	-8.43%
Hendry	7,005.36	7,614.33	(608.97)	-8.00%
Franklin	1,208.95	1,313.90	(104.95)	-7.99%
Hamilton	1,850.52	1,992.43	(141.91)	-7.12%
Pinellas	105,460.50	113,112.04	(7,651.54)	-6.76%
Escambia	40,330.27	43,142.03	(2,811.76)	-6.52%
Miami-Dade	342,774.91	365,383.78	(22,608.87)	-6.19%
Putnam	11,153.93	11,856.04	(702.11)	-5.92%
Gadsden	5,965.03	6,329.69	(364.66)	-5.76%
Okaloosa	29,063.15	30,646.66	(1,583.51)	-5.17%
Gulf	2,006.61	2,113.18	(106.57)	-5.04%
Charlotte	16,991.81	17,827.02	(835.21)	-4.69%
Broward	255,057.88	267,495.03	(12,437.15)	-4.65%
Alachua	27,255.88	28,366.47	(1,110.59)	-3.92%
Bay	25,229.08	26,125.46	(896.38)	-3.43%
Dixie	2,061.53	2,129.20	(67.67)	-3.18%
Duval	123,716.09	127,482.18	(3,766.09)	-2.95%
Okeechobee	6,939.68	7,137.32	(197.64)	-2.77%
DeSoto	4,999.72	5,105.66	(105.94)	-2.07%
Gilchrist	2,645.06	2,696.79	(51.73)	-1.92%
Levy	5,973.00	6,064.83	(91.83)	-1.51%
Volusia	62,964.81	63,641.63	(676.82)	-1.06%
* Full-time Equivalent				

Source: Auditor General

Increasing Enrollment. Conversely, as shown in Exhibit 5, 10 school districts have had enrollment growth, in excess of 10 percent and 1,000 full-time equivalent (FTE) students, over the five-year period. Although these school districts experienced an increase in FTE-based revenue for the increased enrollment, the revenue increases can lag behind school district expenditures when staffing new schools and paying initial start-up costs. Also, there is a greater risk that rapidly growing school districts may err when making FTE projections and overestimate FTE. Not only are these errors costly when FTE-based revenues are adjusted, but the school districts generally have made costly hiring and other expenditure decisions based on the estimated enrollment projections.

Exhibit 5
School Districts with Increasing Enrollment of More Than 10 Percent and 1,000 FTE* Students Over Five Years

School District	2008-09 Unweighted FTE*	2003-04 Unweighted FTE*	Increase	Percentage Increase
Flagler	12,770.12	8,337.04	4,433.08	53.17%
St. Johns	28,833.76	22,956.50	5,877.26	25.60%
Lake	40,151.23	33,552.77	6,598.46	19.67%
Lee	78,280.86	65,693.94	12,586.92	19.16%
St. Lucie	38,221.38	32,418.14	5,803.24	17.90%
Hernando	22,645.07	19,304.04	3,341.03	17.31%
Osceola	51,070.83	43,652.38	7,418.45	16.99%
Pasco	65,837.68	56,342.71	9,494.97	16.85%
Clay	35,844.30	30,941.38	4,902.92	15.85%
Polk	93,103.79	83,204.41	9,899.38	11.90%
* Full-time Equivalent				

Source: Auditor General

Number and Sizes of Schools. Considerable variation exists in the number and size of schools. Some school districts have a predominantly larger number of schools, and some have a predominantly smaller number of schools. Additionally, some have varying combinations of large, medium, and small school sizes. Logically, larger schools cost less per student than smaller schools because the salary, benefits, and fixed costs are spread over a larger number of students. We do not intend to suggest that smaller schools are inappropriate; rather, that the number and sizes of schools are relevant factors that impact financial condition among school districts.

Future Financial Trends Considerations

Economic Downturn. The weakness in the state of Florida's economy for the last few fiscal years has resulted in State funding reductions from the original budgeted increase in funding amounts via mid-year holdbacks for the school districts. For the 2008-09 fiscal year, the base FTE Florida Education Finance Program (FEFP) allocation was initially estimated to be $3,971.74. This amount was revised once, reducing the amount by a total of $85.60, resulting in a final per FTE FEFP allocation of $3,886.14. This amount represents a significant decrease of $193.60 from the final per FTE FEFP of $4,079.74 for the 2007-08 fiscal year. Based on the 2009-10 FEFP Fourth Calculation released by the Florida Department of Education in April 2010, the per FTE FEFP allocation for the 2009-10 fiscal year is expected to further decline by $255.52 to $3,630.62 from the 2008-09 fiscal year final allocation. For comparison purposes, this per FTE FEFP allocation amount of $3,630.62 is virtually the same as the 2003-04 fiscal year final per FTE FEFP allocation amount of $3,630.03. In addition, FTE in school districts declined by approximately 18,600 from the 2007-08 fiscal year to the 2008-09 fiscal year, although based on the most recent FTE information available from the Florida Department of Education, FTE increased by approximately 6,600 in the 2009-10 fiscal year. Under these conditions, effective financial monitoring and timely and appropriate adjustments to operations are critical to school districts to ensure that the costs of operations remain within available financial resources.

Debt and Other Long-Term Financing. School districts may finance capital outlay projects by issuing long-term debt such as general obligation bonds and district revenue bonds and by entering into long-term lease finance arrangements generally referred to as certificates of participation. The long-term debt and other financing obligations reported as outstanding as of June 30, 2009, consisted primarily of: certificates of participation totaling close to $14.4 billion; Qualified Zone Academy Bonds (QZABs) of approximately $236 million; and district revenue, general obligation, and State Board of Education bonds totaling approximately $1.2 billion, $363 million, and $642 million, respectively. Generally, school districts extinguish their debt through various pledged resources such as capital outlay millage, discretionary sales surtax, pari-mutuel, and other tax proceeds. However, given the impact of the economic downturn on revenue sources, such as sales tax and property assessments, school districts will need to closely monitor the impact on required debt service payments.

American Recovery and Reinvestment Act and Other Federal Funding. The distribution of approximately $3.5 billion dollars of American Recovery and Reinvestment Act (ARRA) funds to the school districts' K-12 programs began in the 2008-09 fiscal year, with the overall goals of improving schools and achievement and producing better results for students. ARRA is expected to have a significant financial impact for the 2009-10 and 2010-11 fiscal years on school districts with funding amounts for State stabilization, Federal Special Education, and Federal Title I programs estimated to be $2.7 billion, $647 million, and $491 million, respectively, as of January 2010. Further, numerous ARRA competitive grants will be made available to school districts, such as the Race to the Top Incentive grants, the Innovation Fund grants, and other grants awarded to school districts through Federal, State, and local agencies. In August 2010, Florida was awarded a Race to the Top Incentive grant, the award amount of which is anticipated to be $700 million. In September 2010, Florida was awarded $554.8 million from the Education Jobs Fund. This Federal funding will likely be nonrecurring as ARRA funding is expected to terminate in 2011.

To support the most effective use of the funds and measure results, recipients are required to report quarterly expenditures tied to the assurance, principles, and strategies associated with ARRA Federal programs. Beginning in October 2009, school districts have had to meet this reporting requirement by the fifth day of each month following the end of the quarter. The necessary information to be reported includes, for example, project descriptions, activity descriptions, job creation and retention data, infrastructure information, subrecipient information, recipient area of benefit information, and population data. Because ARRA funding was not made available to school districts until the last months of the 2008-09 fiscal year, school districts only incurred ARRA expenditures totaling approximately $40 million for that fiscal year.

School District Funding Trends

School district governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. School districts frequently have fiduciary funds (agency and trust funds) and proprietary funds (primarily internal service funds that account for such activities as self-insurance programs). However, substantially all of a school district's resources are accounted for in the governmental funds. Exhibit 6 shows that school districts reported revenues of approximately $26.5 billion in the governmental funds during the 2008-09 fiscal year, a decrease of approximately $2.8 billion from the previous fiscal year.

Exhibit 6
Statewide Revenues – All Governmental Funds
Fiscal Years 2008-09 and 2007-08

Governmental Fund Type	2008-09 Amount	2008-09 Percent of Total	2007-08 Amount	2007-08 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
General Fund	$ 19,157,289,329	72.23%	$ 20,216,830,585	68.99%	$ (1,059,541,256)	(5.24)%
Other Funds	7,365,188,903	27.77%	9,089,462,969	31.01%	(1,724,274,066)	(18.97)%
Total	**$ 26,522,478,232**	**100.00%**	**$ 29,306,293,554**	**100.00%**	**$ (2,783,815,322)**	**(9.50)%**

Source: Auditor General

Exhibit 7 shows total governmental fund type revenues reported by school districts for the 2008-09 and 2007-08 fiscal years by revenue source.

Exhibit 7
All Governmental Funds – Revenues by Source
Fiscal Years 2008-09 and 2007-08

Sources	2008-09 Amount	2008-09 Percent of Total	2007-08 Amount	2007-08 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
Federal	$ 2,698,740,558	10.18%	$ 2,528,728,187	8.63%	$ 170,012,371	6.72%
State	9,472,472,840	35.71%	11,793,707,387	40.24%	(2,321,234,547)	(19.68)%
Local	14,351,264,834	54.11%	14,983,857,980	51.13%	(632,593,146)	(4.22)%
Total	**$ 26,522,478,232**	**100.00%**	**$ 29,306,293,554**	**100.00%**	**$ (2,783,815,322)**	**(9.50)%**

Source: Auditor General

The $2.8 billion decrease in total revenues during the 2008-09 fiscal year consisted of a net increase in Federal revenues of approximately $170 million, a decrease in State revenues of approximately $2.3 billion, and a decrease in local revenues of approximately $633 million. Total Federal revenues increased by 6.72 percent, while State and local revenues decreased by 19.68 and 4.22 percent, respectively. The significant decline in State revenues consists of a decrease of $1.16 billion in State FEFP revenues and a decrease of $1.16 billion in restricted State revenues. These revenue decreases are related to the decline in the 2008-09 fiscal year student enrollment and the base per FTE FEFP allocation discussed previously in the **Economic Downturn** section of this report.

Exhibit 8 shows Federal, State, and local sources reported in the general fund (operating fund) of school districts for the 2008-09 and 2007-08 fiscal years.

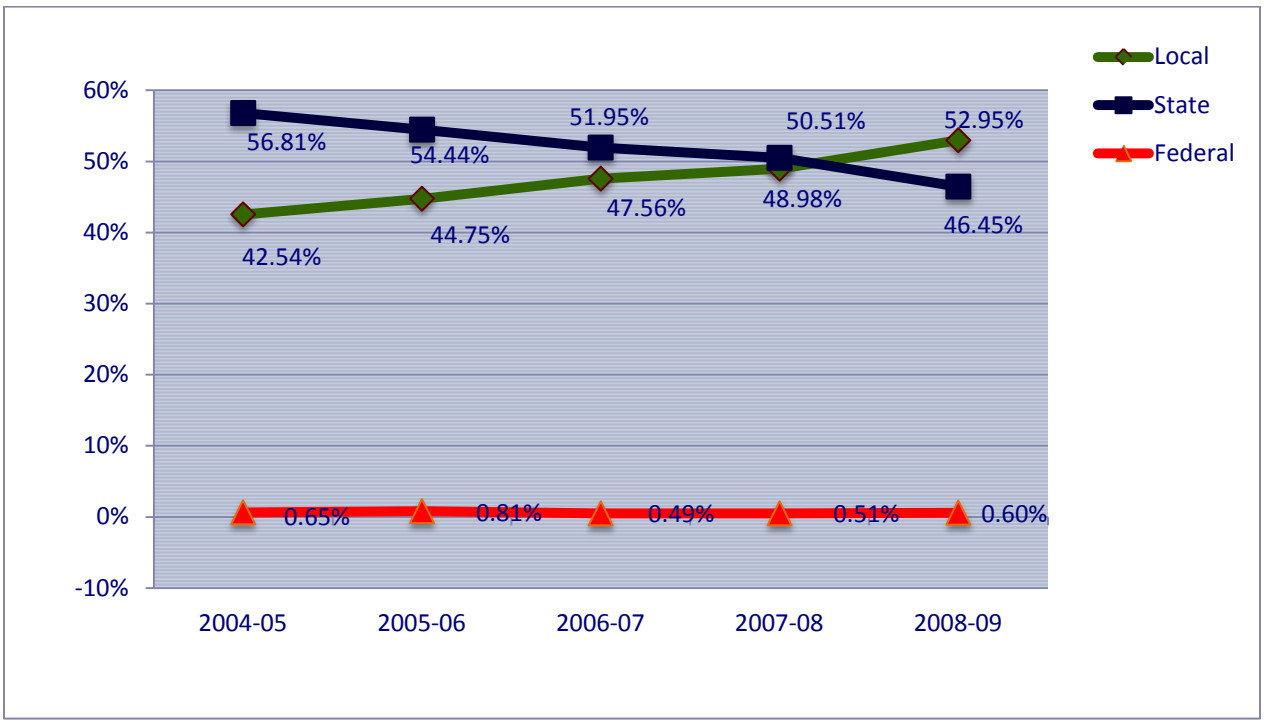
Exhibit 8
General Fund Revenues by Source
Fiscal Years 2008-09 and 2007-08

General Fund	2008-09 Amount	2008-09 Percent of Total	2007-08 Amount	2007-08 Percent of Total	Increase/ (Decrease)	Percent Increase/ (Decrease)
Federal	$ 115,595,311	0.60%	$ 104,075,568	0.51%	$ 11,519,743	11.07%
State	8,897,787,240	46.45%	10,211,276,575	50.51%	(1,313,489,335)	(12.86)%
Local	10,143,906,778	52.95%	9,901,478,442	48.98%	242,428,336	2.45%
Total	**$ 19,157,289,329**	**100.00%**	**$ 20,216,830,585**	**100.00%**	**$ (1,059,541,256)**	**(5.24)%**

Source: Auditor General

As shown on Exhibit 8, the State provided 46.45 percent of general fund resources, while the required local revenue sources provided 52.95 percent of total general fund resources. As discussed later in this section of the report, Federal funds are restricted and most of those funds are reported in the school districts' special revenue funds. The changes in the percentage of revenues from Federal, State, and local sources in the general fund over the last five years can be seen in Exhibit 9:

Exhibit 9
Change in Percentage of General Fund Revenues from Federal, State, and Local Sources Over Five Years



Source: Auditor General

The majority of the State and local resources for school district operations are derived from FEFP, which is designed to provide a base level of educational resources per FTE for all school districts. FEFP moneys are primarily generated by multiplying the number of FTE students in funded educational programs by various weights and cost factors determined by the Legislature to determine base funding from State and local FEFP funds. Each school district receiving State FEFP moneys must levy the required local effort millage in its local property taxes.

State and local FEFP revenue for school district operations totaled approximately $13.03 billion, comprised of approximately $4.78 billion in State revenues and approximately $8.25 billion in local revenues. In addition to the $4.78 billion in State revenues for operations as part of the FEFP, the school districts also received approximately $4.69 billion in restricted State revenues. These restricted State revenues were for categorical education, Workforce Development, Public Education Capital Outlay, and other specific programs.

In addition to the $8.25 billion in local revenues for funding operations as part of the FEFP, the school districts reported approximately $6.10 billion in other local revenues. These local revenues included, in part, approximately $3.04 billion from capital outlay millage levies for advertised construction, facility maintenance, and equipment; approximately $1.28 billion from discretionary local effort millage levies for operations; and approximately $91 million from debt service millage levies for servicing bonded debt. Additional sources of local revenue included sales taxes, impact fees, charges for services, investment income, and other local sources. Twenty-four school districts reported

local sales tax revenue totaling approximately $530 million in the 2008-09 fiscal year, which reflects an increase of one in the number of school districts reporting local sales tax revenue, but a decrease in the amount of revenue reported in the 2007-08 fiscal year, which totaled $595 million. Thirty-four school districts reported impact fee revenue totaling approximately $102 million in the 2008-09 fiscal year, as compared to 34 school districts that reported approximately $193 million the previous fiscal year.

Resources of the special revenue funds consist of moneys restricted by Federal and State grantors to be used for specific program purposes. Examples include Federal Title I and National School Lunch Act revenues. Because these resources are restricted, school districts can use them only for those specific activities that meet the purposes of the granting agency, and such resources are not available for general appropriation for operating activities or for unexpected events or emergencies.

The issuance of long-term debt is a significant source of capital funding for school districts. Proceeds associated with the issuance of debt in the 2008-09 fiscal year totaled approximately $870 million. Within the governmental funds, debt service and capital projects funds are used to account for resources restricted specifically for the payment of debt and for the acquisition of real property and the construction, renovation, remodeling, and maintenance of school district facilities. These resources are not available to finance the operating activities of a school district.

Financial Condition Background

Financial Condition Measure. There are several measures that may be used to evaluate the financial condition of governments. One widely used financial condition measure that is relevant to school districts is a measure that compares the level of available equity in the operating fund to overall operating resources for that fund for a fiscal year. This measure shows the net accumulated resources at a point in time that is available for appropriation to meet the costs of unexpected and nonrecurring events. We used this measure in analyzing school district financial condition (see Exhibit 10).

Exhibit 10
Financial Condition Measure

$$\frac{\text{General Fund Unreserved Fund Balance (1)}}{\text{General Fund Revenues (2)}} = \text{Financial Condition Ratio (\%)}$$

Notes: See sections titled:
(1) Characteristics of General Fund Equity
(2) School District Funding Trends

Source: Auditor General

Credit rating agencies generally look more favorably on financial condition ratios of at least 5 percent. Other literature suggests percentages ranging from 5 to 10 percent. However, often the guidance is not clear as to whether the percentage is derived from total fund balance or unreserved fund balance. We also considered revenue stream characteristics and expenditure practices for school districts. In view of the revenue and expenditure stream characteristics in school districts, the established financial management practices followed by school districts, and the oversight by the Florida Department of Education, a lower unreserved fund balance threshold may be reasonable without unacceptable risks.

Effective for the 2008-09 fiscal year, pursuant to Section 1011.051, Florida Statutes, school district superintendents were required to notify the Commissioner of Education and respective school board if the general fund unreserved fund balance in the district's approved operating budget was projected to fall below 3 percent of projected general fund revenues during the current fiscal year. Consequently, for consistency with this statutory requirement, we used a financial condition ratio of 3 percent for purposes of this report.

Characteristics of General Fund Equity. The fund balance shows the accumulated net resources at a point in time. It is the difference between the assets and the liabilities of the fund. Also, the fund balance is segregated between those amounts that are reserved and unreserved.

Reserved fund balances represent the portion of the fund balance that is externally restricted for specific future uses or is otherwise not available for general appropriation. Typical fund balance reserves recorded by school districts are described below:

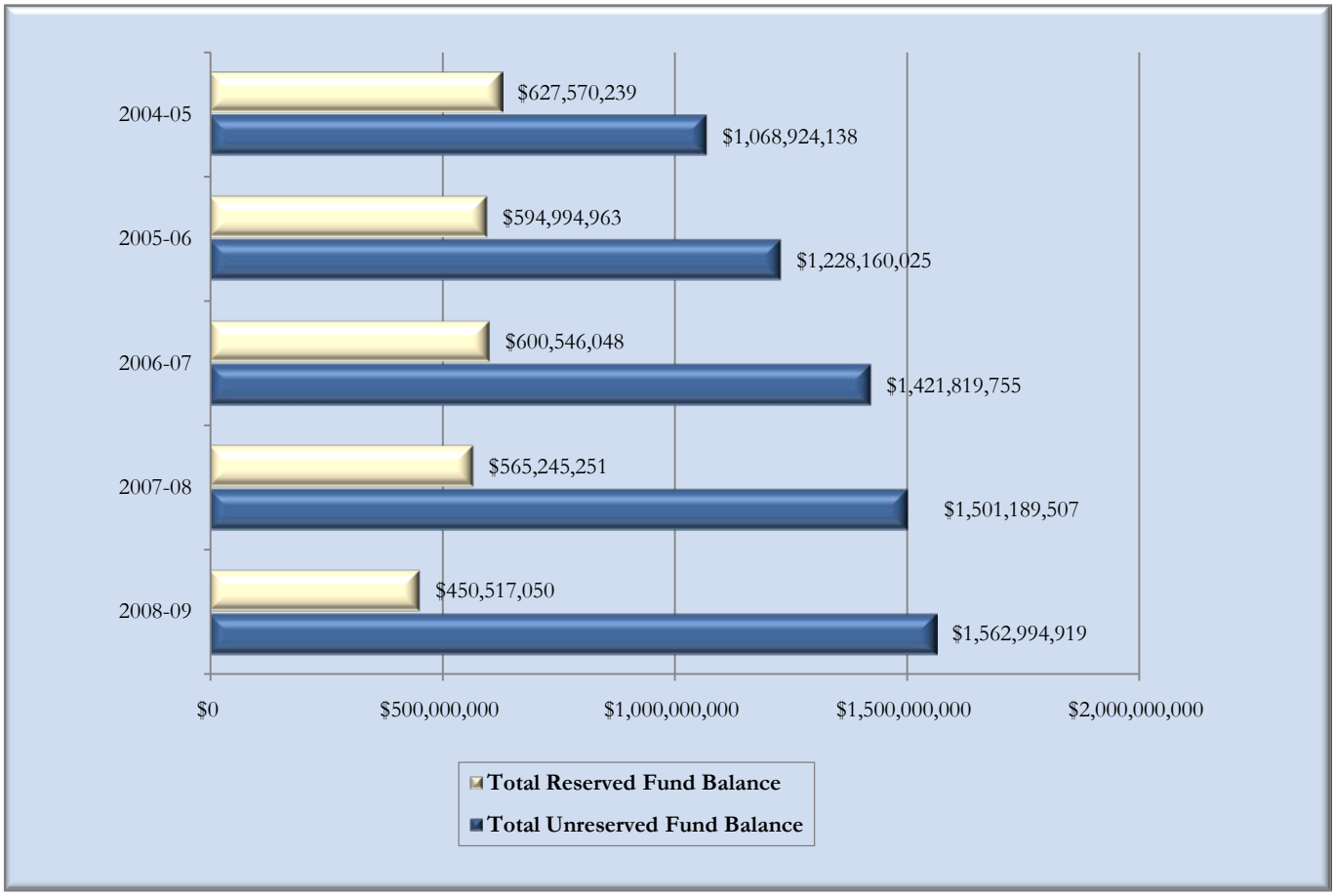
- *Reserved for Encumbrances* represents the value of outstanding purchase orders and commitments that were incurred before fiscal year-end, but have not been delivered or presented for payment at fiscal year-end. By reserving fund balance, resources are set aside to pay these outstanding purchase orders and commitments in the subsequent fiscal year.
- *Reserved for State Categorical Programs* represents residual amounts of externally restricted resources that must be used to pay for the specific activities intended for these categorical programs. Some categorical programs require that unspent resources be returned to the grantor. By reserving fund balance, resources are set aside to pay for these externally restricted activities.
- *Reserved for Inventories* represents the value of inventories on hand. The amount of fund balance represented by inventories is not liquid or easily converted to cash. As a result, the portion of fund balance represented by inventories is reserved to show that it is not available for appropriation. *(School districts use one of two methods to account for inventories. School districts using the "purchases" method expense inventory when acquired and inventories on hand at fiscal year-end are reported as an asset and a reservation of fund balance. School districts using the "consumption" method record inventory receipts as assets and the expenditure is recorded when the inventory asset is actually issued and used and a fund balance reserve for inventories may not be recorded. For purposes of our analysis, we have adjusted all school districts to the "purchases" method of accounting for inventory because it results in a more conservative presentation of the available fund balance.)*

Some school districts report other fund balance reserves; however, those reserves generally are not as frequently used or as significant in amount as those described above.

Unreserved fund balance may include designated and undesignated amounts. Designated amounts do not represent externally restricted resources and such resources are available for appropriation. If necessary, school districts may reallocate designated fund balances for other uses. The unreserved fund balance is considered to be the amount of unrestricted resources available for general appropriation.

As shown below in Exhibit 11, the combined fund balances of the general funds (operating funds) of school districts Statewide has increased from approximately $1.7 billion for the 2004-05 fiscal year to approximately $2.01 billion for the 2008-09 fiscal year.

Exhibit 11
General Fund Unreserved and Reserved Fund Balances



Source: Auditor General

The steady increase in the combined fund balances through the 2006-07 fiscal year is generally consistent with student population and inflationary growth during that time period; however, decreases of approximately 10,000 and 18,600 in student enrollment Statewide were noted for the 2007-08 and 2008-09 fiscal years, respectively, and a decline of approximately $52.9 million in total fund balances was noted for the 2008-09 fiscal year. In addition, as discussed in the **Economic Downturn** section, weaknesses in the general economy and a further decline in the per FTE FEFP allocation for the 2009-10 fiscal year are expected to result in a decline in total school district revenues that may further negatively impact fund balances in the 2009-10 fiscal year. During the five-year period, the percentage of unreserved fund balance to total fund balance has ranged from a low of 63 percent for the 2004-05 fiscal year to a high of 78 percent for the 2008-09 fiscal year.

AUDIT FINDINGS

Classification of Audit Findings

Auditing standards require that auditors report significant control deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the school 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 school district's financial statements that is more than inconsequential will not be prevented or detected. 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 would not be prevented or detected. The classification of an audit finding is dependent upon its potential impact on the specific school district under audit. Therefore, the classification of an audit finding could vary from school district to school district.

The audit reports for 3 school districts included no findings, while 64 audit reports included a total of 506 findings addressing weaknesses in internal control, instances of noncompliance with applicable laws or rules, or additional matters. For purposes of this report, audit findings are generally classified in one of three categories. The first category consists of material weaknesses, as defined above, and instances of material noncompliance. Noncompliance with applicable laws or rules is considered material when it is determined that the noncompliance could have a direct and material effect on the determination of financial statement amounts. The second category of significant deficiencies and additional matters consists of significant control deficiencies, as defined in the previous paragraph, plus instances of noncompliance with applicable laws or rules, and additional matters that management should address. The third category of Federal Awards findings includes instances of internal control deficiencies or noncompliance with Federal requirements.

In the audit reports issued by our office, all audit findings are included within the body of the audit report. In the audit reports issued by the other independent certified public accountants, material weaknesses and significant deficiencies are included within the body of the report and additional matters are generally included in a separate management letter.

Material Weaknesses and Material Noncompliance

The audit reports for fifteen school districts (Dixie, Flagler, Gadsden, Hamilton, Hendry, Indian River, Jefferson, Monroe, Okeechobee, Pinellas, Polk, Santa Rosa, Taylor, Union, Washington) included findings that were considered to be material weaknesses, and the reports for two of the school districts (Jefferson, Monroe) cited instances of material noncompliance, which represents a significant increase from the seven audit reports that included material weaknesses in the previous fiscal year. Pursuant to Section 1003.621(1)(a)3., Florida Statutes, a school district cited with a material weakness or instance of material noncompliance in a financial audit is ineligible for recognition as an academically high-performing school district. Academically high-performing school districts are granted more flexibility than other school districts in meeting the specific requirements in statute and rules of the State Board of Education.

The nature of the material weaknesses and material noncompliance and the school districts for which those findings were noted are described below:

- Material weaknesses reported for eight school districts (Dixie, Flagler, Hamilton, Monroe, Pinellas, Polk, Santa Rosa, Union) addressed the need for enhancements in procedures to ensure the accuracy and completeness of the financial statements.
- Material weaknesses reported for three school districts (Gadsden, Hendry, Okeechobee), addressed the need for enhancements in accountability for school internal fund collections, or for the timely completion of the required audits of the school internal funds for inclusion in the audit of the school districts' financial statements.
- Material weaknesses reported at two school districts (Jefferson, Taylor) addressed deficiencies in budgetary controls and compliance and the presentation of monthly financial statements to the school boards. These deficiencies were not conducive to effective management control over the school districts' resources and may

have contributed to weaknesses in the financial condition of these school districts. The material weakness in budgetary controls at one school district (Jefferson) was also classified as material noncompliance with applicable laws and rules.

- Material weaknesses reported at two school districts (Pinellas, Taylor) addressed the need for improvements in reconciliations of bank accounts to the school districts' records.
- Material weaknesses reported at two school districts (Indian River, Monroe) addressed the use of capital outlay tax levy moneys for purposes not authorized by law. The capital outlay tax levy moneys that were questioned totaled $2.7 million for one school district (Indian River) and $711,453.52 for another school district (Monroe).
- A material weakness reported at one school district (Monroe) addressed controls over adult education vendor expenditures, employee reimbursements, general expenditures, and travel expenditures that were not designed properly or operating effectively to detect and timely correct errors or fraud. This material weakness over expenditure controls was also classified as material noncompliance with applicable laws and rules.
- A material weakness reported at one school district (Pinellas) addressed deficiencies in controls over the management, valuations, and electronic funds transfers of investments.
- A material weakness reported for one school district (Washington) cited the District for inadequately monitoring its third-party administrator (TPA), responsible for submitting insurance claim reimbursement requests to the excess insurers for losses above the aggregate insurance claim limit. At June 30, 2009, the District reported approximately $2.3 million as due from aggregate excess insurers, but the District's TPA had only requested reimbursement of approximately $190,000 of aggregate insurance recoveries as of December 2009.

Significant Deficiencies and Additional Matters

The audit reports for three school districts contained no audit findings, and reports for the remaining 64 school districts included findings that addressed control deficiencies or instances of noncompliance with applicable laws or rules. The following is a summary of those findings.

Financial Condition. In addition to the material weakness noted for Jefferson and Taylor County District School Boards discussed previously, three school districts had findings addressing the school districts' financial condition. For one of these school districts, the general fund unreserved fund balance actually increased during the 2008-09 fiscal year to approximately $1.8 million, which represented approximately 4 percent of general fund revenues. However, the general fund unreserved fund balance could be reduced if the school district is required to repay questioned costs, totaling approximately $1.6 million, as noted elsewhere in the audit report and previous audit reports. In an audit finding at one school district, the auditors recommended an adjustment to the financial statements that the District did not accept, and the adjustment would have reduced the general fund unreserved fund balance to 2.93 percent of general fund revenues. The general fund unreserved fund balance for another school district also improved, from 0.32 percent to 2.4 percent of general fund revenues. However, the auditors recommended that the school district continue to take action to improve its financial position, particularly since Federal stimulus funding is scheduled to end after the 2010-11 fiscal year. Under these circumstances, these school districts could have less resources available for emergencies and unforeseen situations than other school districts and were at a higher risk of experiencing financial difficulty.

Food Service Operations. For two school districts, inadequate monitoring of the efficiency of the food service program operations was noted. Additionally, at one of the school districts the Special Revenue – Food Service Fund ended the fiscal year with a deficit of approximately $501,000. Insufficient efforts to improve the financial condition of this fund may require use of unrestricted general fund resources to subsidize the food service program, which

reduces funds available for other educational programs and could adversely impact efforts to maintain an adequate general fund unreserved fund balance.

Fraud Policies. The audit reports for nine school districts included findings regarding the insufficiency or lack of formal fraud policies. An effective fraud policy educates employees about proper conduct; creates an environment that deters dishonesty; maintains controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts; and provides guidance to employees for reporting known or suspected fraud to the appropriate authority.

Information Technology. For 50 school districts, findings were noted regarding various deficiencies in information technology (IT) controls, as discussed below:

- **Written Policies**. For 24 school districts, a lack of written IT policies and procedures was noted.
- **Access Controls**. For 44 school districts, various deficiencies in IT access controls were noted. For example, at certain school districts, inappropriate or unnecessary access privileges existed, data was not classified according to sensitivity or level of significance, or documentation of user access authorization was not maintained. School district management was notified of the specific details of the access control deficiencies, although the details were not always included in the audit reports to avoid the possibility of compromising District data and IT resources.
- **Lack of Timely Termination of Access**. For 15 school districts, a lack of timely termination of former employee IT access privileges was noted.
- **Security Awareness**. For 15 school districts, the need for security awareness training programs, or the need for improvements in already existing security awareness training programs, was noted.
- **Program Change Methodology**. For 11 school districts, enhancements were needed in information systems program change methodology.
- **Disaster Plans**. For 12 school districts, disaster preparedness and recovery plans needed improvement.
- **Logging/Monitoring**. For 14 school districts, inadequate logging or monitoring of data and IT resources was noted.

Record Keeping/Records Management. In addition to the material weaknesses noted for Dixie, Flagler, Gadsden, Hamilton, Jefferson, Monroe, Pinellas, Polk, Santa Rosa, Taylor, and Union County District School Boards discussed previously, the audit reports for 30 school districts included findings addressing the need for improvements in certain record keeping and financial records management procedures. At 24 school districts, procedures needed improvement to ensure the accuracy and completeness of the financial statements. While many of these findings related to various audit adjustments that were required for the accuracy of the financial statements, other instances included needed improvements in the preparation and accuracy of the Schedule of Expenditures of Federal Awards; inadequate disclosure regarding investments in notes to financial statements; a lack of reconciliations between detailed supporting documentation and general ledger accounts; and a lack of formal procedures for the year-end financial statement close-out process.

For two school districts, deficiencies were noted in accountability over goods, supplies, and fuel inventories. For four school districts, controls over journal entries needed improvement. Other findings and recommendations addressed the lack of a formal process to notify the finance department of certain matters for disclosure in the financial statements; the lack of formal documentation maintained to evidence certain assumptions or notification of self-insurance program changes provided to the actuary; the maintenance and use of three master vendor files, potentially resulting in the use of inaccurate information; the lack of presentation of monthly financial reports to the

school district board; the consideration to utilize an internal service fund to account for its self-insurance program; and enhancements needed in the budget process monitoring procedures.

Cash and Investment Controls. In addition to the material weaknesses noted for Gadsden, Okeechobee, Pinellas and Taylor County District School Boards discussed previously, at 10 school districts, findings addressed control deficiencies over cash or investments. At five school districts, it was noted that improvements in controls were needed over central cashier and decentralized collections, such as school a la carte food sales and other food service collections; school child care program fees; and Adult Education fee collections. For three school districts, improvements in the procedures over the reconciliation of bank or investment accounts were needed. Also, one school district needed to enhance its controls to ensure banking agreements were timely amended for personnel changes. Improvements in various controls related to school district investments were needed at two school districts, such as the lack of competitive selection procedures for investments, contrary to board policy. Other deficiencies noted included the need for improvement in school district procedures to account for school internal funds and the need for the school child care program software to be fully implemented and refined.

Capital Assets Management. For 11 school districts, findings and recommendations addressed deficiencies in the accountability for long-lived assets, including land, motor vehicles, and tangible personal property. At six school districts, deficiencies were noted in procedures to ensure accountability for tangible personal property, such as untimely tagging property to indicate school district ownership, the lack of adequate physical inventory procedures, and inadequately documenting property dispositions. For four school districts, the lack of adequate detailed subsidiary records for capital assets was noted. At one school district, the accounting for capital asset transactions needed improvement.

Expenditures/Purchasing. In addition to the material weakness noted for Monroe County District School Board discussed previously, for 14 school districts, findings addressed the need to improve controls over purchasing practices and operating expenditures. For seven school districts, improvements were needed in controls over the use of purchasing cards. At three school districts, procedural improvements were needed to ensure that maintenance department purchases are consistent with bid requirements and contract terms and properly supported by vendor invoices, and that authorized employees evidence receipt of goods and services. For two school districts, improvements were needed in contract monitoring procedures to ensure that services are received before payment is made. For another school district, controls could be enhanced by the periodic solicitation of proposals from financial institutions for banking services to ensure the most cost effective services are obtained. Also, duties were inadequately separated for vendor payment processing at one school district.

Payroll and Personnel. For 19 school districts, findings addressed the need to improve controls over payroll and personnel, as summarized below:

- **Personnel Administration.** For three school districts, it was noted that procedures for performing fingerprinting and background screenings for employees and contracted vendors with direct student contact were not adequate. In addition, the procedures at one school district were not effective to ensure that all out-of-field teacher assignments were timely presented to the board for approval.
- **Payroll Processing**. For 11 school districts, it was noted that controls over payroll processing could be enhanced. For example, at six of these school districts, auditors noted that procedural enhancements could be made to sufficiently and appropriately evidence employee work time supporting salary and benefits costs. At another school district, improvement was needed in efforts to reduce salary overpayments and in monitoring overtime payments. At two different school districts, audit reports cited the lack of appropriate supervisory approval of certain payroll reconciliations or review and approval of online time records. One school district made certain inaccurate and untimely Federal withholding and social security tax payments to

the Internal Revenue Service, resulting in penalty payments totaling $15,627.87. At another school district, errors within the payroll system caused the allocation of wages for certain employees to be incorrect during multiple pay periods throughout the year.

- **Separation of Duties**. For three school districts, incompatible duties involving payroll and personnel employees were noted. Good internal control practices dictate that incompatible duties be separated, or that adequate compensating controls be implemented.
- **Other**. For two school districts, the audit reports included a finding that the school districts should plan for further increases in unemployment compensation claims. Another school district did not limit the accrual of vacation leave time in accordance with board policy, resulting in 78 hours, totaling $2,233, being overpaid.

Self-Insurance Programs. In addition to the material weakness for Washington County District School Board discussed previously, for three school districts, findings addressed the need to improve controls over the administration of self-insurance plans. One school district had not submitted its group health self-insurance annual report for the plan years 2006, 2007, or 2008, to the Florida Office of Insurance Regulation. It was also noted that, because contribution levels were not apparently meeting current obligations, this school district's internal service fund used for the self-insurance plan reported a deficit net assets balance of $7 million at June 30, 2009. Another school district had not established a formal plan to fund its property self-insurance program for wind damage, and contributions to the health self-insurance plan were not consistent with board-approved rates. The third school district did not adequately monitor workers' compensation expenses paid by the school district's third-party administrator.

Capital Construction and Related Expenditures. In addition to the material weaknesses for Indian River and Monroe County District School Boards discussed previously, for 14 school districts, findings addressed the need to improve controls over capital outlay expenditures, as summarized below:

- **Construction Monitoring**. For four school districts, improvements were needed in controls over construction contracts. For example, school districts could improve controls over day-labor projects, the administration of guaranteed maximum price contracts, and compliance with school district board policy regarding approval of construction project change orders.
- **Acquiring Professional Services.** It was noted that:
  - Three school districts did not have adequate procedures to establish minimum insurance requirements for design professionals or did not obtain builders risk insurance required by contracts and debt agreements.
  - One school district did not comply with Section 287.055, Florida Statutes, when selecting an architect for a major construction project. For this same project, the school district also did not comply with Florida Department of Education requirements regarding the prequalification of contractors.
- **Restricted Capital Outlay Resources**. It was noted that:
  - For nine school districts, restricted capital outlay moneys in amounts ranging from approximately $9,000 to $9.9 million were used for purposes not directly related to the delivery of student instruction or the educational plant, including interest rate swap agreement termination fees, library books, computer software, software support services, software licenses, football field equipment, janitorial supplies, and groundskeeping supplies. Additionally, one of these school districts remitted approximately $9.9 million in optional capital outlay taxes and State charter school capital outlay funds to a charter school. The charter school used the funds primarily for operating purposes, which appeared to be contrary to Sections 1011.72 and 1013.62, Florida Statutes.
  - Four school districts used capital outlay tax levy moneys totaling approximately $4.4 million for projects not listed in the notice of intent to levy capital outlay millage ad valorem taxes, contrary to Section 200.065, Florida Statutes.

- Three school districts did not properly account for capital outlay millage transactions in accounting records, which could limit the school districts' ability to document compliance with statutory requirements relating to capital outlay millage, as well as accountability for and transparency of these transactions.

Collection of Social Security Numbers. For 20 school districts, noncompliance with Section 119.071(5), Florida Statutes, was reported. This statute requires school districts to follow certain procedures in maintaining the confidentiality of social security numbers collected by the school districts.

Adult General Education Courses. Chapter 2008-152, Laws of Florida, Specific Appropriation 120, provides that each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures. Twenty-four school districts' audit reports included findings that the school districts could enhance controls over enrollment reporting. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly and be accurately presented in FDOE's records.

Educational Facility Safety. For two school districts, improvements were needed regarding educational facility safety. Although required facility inspections were performed at both of these school districts, auditors reported that deficiencies noted in the inspections were not timely resolved. For one of the school districts, 55 percent of deficiencies cited in the 2008-09 fiscal year inspections remained uncorrected from the previous year. For the other school district, the auditors noted instances during facility inspections at various school sites, where between 7 and 191 deficiencies cited remained uncorrected for up to 14 years. For this same school district, it was also noted that the corrective action status noted on work orders and inspection reports was not always consistent and timely resolved.

Charter School Monitoring. For six school districts, findings addressed the monitoring of charter schools for compliance with charter contract provisions. It was noted for five of these school districts that improvements were needed in procedures for monitoring the charter schools to ensure the adequacy of insurance. At the sixth school district, improvements were needed in the fiscal monitoring of the school district's charter schools.

Miscellaneous Findings. In addition to those findings described above, audit findings addressing various other matters, although not predominant, were included in the individual school district audit reports. These matters included, for example, the lack of policies and procedures for documenting the business use of cellular telephones; deficiencies in internal controls over high school student diplomas; the need for improved procedures over school internal funds; deficiencies in procedures meant to prohibit conflicting employment or contract relationships of board members and employees; the lack of comprehensive procedures manuals for school district financial operations and related activities; deficiencies in the documentation of, and procedures over the calculation of, arbitrage liability; the lack of employee cross training and a mandatory vacation policy; and the lack of formal districtwide policies governing school district booster clubs.

Federal Awards Findings

For 44 school districts, findings and recommendations addressed the need to improve controls over Federal awards. Material noncompliance and material internal control weaknesses related to Federal programs were noted at five school districts (Gadsden, Liberty, Miami-Dade, Monroe, Taylor). These material Federal findings addressed noncompliance with the Federal compliance requirements of Allowable Costs/Cost Principles; Eligibility; Matching, Level of Effort, and Earmarking; Reporting; Special Tests and Provisions; and related to major programs including Adult Education; Title I; Special Education; English Language Acquisition; Improving Teacher Quality; Teacher

Incentive Fund; School Improvement Grants; Refugee and Entrant Assistance; and Head Start. Other Federal findings that were not considered material noncompliance addressed various Federal compliance requirements for programs such as the National School Lunch and Breakfast Programs, Title I, Exceptional Student Education, and Improving Teacher Quality. As previously discussed in the **Future Financial Trends Considerations** section of this report, the American Recovery and Reinvestment Act mandates special accountability and transparency requirements regarding Federal stimulus funds, which will require additional record keeping for school districts and expanded audit procedures for auditors.

ADDITIONAL CONSIDERATIONS

Transparency Florida Act

The Transparency Florida Act (Chapter 2009-74, Laws of Florida) was enacted to provide access to governmental financial information and transparency in government spending. It requires the Legislative Auditing Committee (Committee) to provide oversight and management of a State Web site providing information on government appropriations and expenditures. Entities, including public school districts, receiving State appropriations will be required to provide financial information for inclusion in the State Web site. The law provides that information to disclose may include expenditures, revenues, and bonding information.

A copy of the Committee's February 2010 Recommendations for Transparency Florida report may be accessed at www.leg.state.fl.us/data/committees/joint/jcla/final-report.pdf. During the 2010 Session, the Legislature adopted proviso language in Chapter 2010-152, Laws of Florida, to implement the Committee's recommendations related to school districts. The Florida Department of Education (FDOE) is required to provide access to existing school district financial-related reports on FDOE's Web site and to create a working group to develop recommendations to provide school-level data in greater detail and frequency.

Government Accounting Standards Board Statements

The Governmental Accounting Standards Board (GASB) issued GASB Statement 45, establishing standards for the measurement, recognition, and presentation of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information in the financial reports of state and local governments. OPEB includes postemployment healthcare, life insurance, disability, long-term care, and other forms of postemployment benefits, when provided separately from a pension plan. Currently, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the benefits are paid. GASB 45 requires the measurement and recognition of OPEB cost over the approximate liabilities associated with OPEB and the progress of the districts in funding the plans. School districts are required to implement GASB 45 in the fiscal year ending June 30, 2008, 2009, or 2010, depending on total revenue reported in the fiscal year ending June 30, 1999. As of the end of the 2008-09 fiscal year, 64 school districts had implemented GASB 45. Because school districts report the OPEB liability in the government-wide statements, it has no impact on the financial condition ratio shown in Exhibit 10.

In addition, GASB issued Statement 53, which requires state and local governments to recognize, measure, and disclose certain information relating to derivative instruments on their financial statements. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or make investments, and the instruments require the governments to receive and make payments based on market prices without actually entering into the related financial or commodity transaction. As provided by GASB Statement 53, school districts are required

to report most derivative instruments at fair value, and the change in fair value of these instruments used for investment purposes are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. Although school districts were required to implement GASB Statement 53 for financial statements with fiscal years ending June 30, 2009, it has no impact on the financial condition ratio shown in Exhibit 10 since school districts report the change in fair value of the derivative in the government-wide statements.

Also, GASB issued Statement 54 to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. Additional classifications are restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. School districts are required to implement GASB Statement 54 by the fiscal year ending June 30, 2011. Because this statement redefined fund balance categories, it will have a significant impact on future trends beginning with the fiscal year ending June 30, 2011.

RECOMMENDATIONS FOR THE LEGISLATURE

A significant number of findings included in audit reports for the 2008-09 fiscal year were also included in audit reports for the previous fiscal year. Of the 506 findings included in the audit reports reviewed, 219 (43 percent) were repeated from the previous fiscal year audit reports. The percentage of repeated findings indicates that some district school boards are not addressing audit findings in a timely manner.

Recommendation: The Legislature should consider amending Florida Statutes to include provisions that encourage district school boards to take timely and appropriate action to address audit findings.

Sections 218.503, 1011.051, and 1011.64, Florida Statutes, contain various references to requirements relating to the term "unreserved fund balance" to describe that portion of fund balance available for general appropriation by governing bodies. However, since GASB Statement 54 redefines the components of fund balance, effective for fiscal years ending June 30, 2011, the term "unreserved fund balance" needs to be replaced with terminology consistent with GASB Statement 54.

Recommendation: Applicable Florida Statutes should be amended to replace the term "unreserved" with more current terminology.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this project was to identify significant financial trends and findings based on our review of school district audit reports.

The scope of this project included a review of the audit reports for the 51 school districts audited by our office and the 16 school districts audited by other independent certified public accountants for the fiscal year ended June 30, 2009.

Our audit methodology included a review of applicable audit reports and a compilation of significant financial trends and findings. We conducted this review in accordance with applicable generally accepted government auditing standards. We believe that the procedures performed provide a reasonable basis for the summaries of significant financial trends and findings included in this report.

AUTHORITY

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of financial trends and significant findings identified in audits of district school boards for the fiscal year ended June 30, 2009.

David W. Martin, CPA
Auditor General