REPORT NO. 2011-163
MARCH 2011

GADSDEN COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Eric Hinson	1
Judge B. Helms, Jr., Chair to 11-16-09	2
Isaac Simmons, Jr., Vice Chair to 11-16-09, Chair from 11-17-09	3
Charlie D. Frost	4
Roger P. Milton, Vice Chair from 11-17-09	5

Reginald C. James, Superintendent

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

The audit team leader was Jason R. Law, and the audit was supervised by Karen L. Revell, CPA. For the information technology portion of this audit, the audit team leader was Deidre N. Melton, 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

GADSDEN 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 9

- Statement of Net Assets 9
- Statement of Activities 10
- Balance Sheet – Governmental Funds 12
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 14
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 16
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 18
- Statement of Fiduciary Assets and Liabilities – Fiduciary Funds 19
- Notes to Financial Statements 20

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General and Major Special Revenue Funds 38
- Schedule of Funding Progress – Other Postemployment Benefits Plan 40
- Notes to Required Supplementary Information 41

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 42

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* 44

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133* 46

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 49

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 71

EXHIBIT A MANAGEMENT'S RESPONSE 73

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 as summarized below.

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

SIGNIFICANT DEFICIENCIES

Finding No. 1: Some District employees and a consultant were assigned excessive information technology (IT) access privileges, and access privileges of some former or reassigned employees were not timely removed or restricted.

Finding No. 2: The District needed to improve its financial reporting procedures.

Finding No. 3: The District's controls over capital asset subsidiary records need improvement.

ADDITIONAL MATTERS

Finding No. 4: District records did not evidence that the use of capital outlay tax levy moneys for insurance premiums was consistent with Section 1011.71(5), Florida Statutes, resulting in $123,339 of questioned costs.

Finding No. 5: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, and performance assessments were not prepared for all instructional personnel and school administrators, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 6: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)(4), Florida Statutes.

Finding No. 7: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 8: Controls over the procurement of consultant services could be enhanced to ensure that expenditures are properly authorized and in compliance with Board Policy.

Finding No. 9: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 10: The District needed to enhance its budgetary process.

Finding No. 11: The District lacked approved written policies and procedures for certain IT functions.

Finding No. 12: The District had not developed a comprehensive IT disaster recovery plan that included provisions for the assignment of personnel responsibilities and an alternate processing site in the event of a disaster.

Finding No. 13: Certain IT security controls related to logging, monitoring, and review of system activity needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Improving Teacher Quality; State Fiscal Stabilization Fund Cluster; Head Start; and AmeriCorps programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, except for the Title I, Part A Cluster, and Improving Teacher Quality programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: The District used Title I and Improving Teacher Quality (ITQ) program funds to supplant other District moneys, resulting in $676,586.84 of questioned costs.

Federal Awards Finding No. 2: District personnel did not always properly document the allowability of Title I and ITQ program expenditures, resulting in $225,064.39 of questioned costs.

Federal Awards Finding No. 3: District procedures did not evidence that certain supplemental educational services were properly monitored and received prior to payment, resulting in $27,040 of questioned costs.

Federal Awards Finding No. 4: The District needed to enhance its procedures for monitoring compliance with the AmeriCorps program matching requirements.

Federal Awards Finding No. 5: District procedures did not ensure that private schools were provided the opportunity to participate in the Federally-funded programs, resulting in $31,043.91 of questioned costs.

Federal Awards Finding No. 6: The District had not established adequate procedures for monitoring Federal funds passed through to the Crossroads Academy Charter School to ensure compliance with Federal requirements.

Federal Awards Finding No. 7: The District did not timely file its comparability report with the Florida Department of Education.

Federal Awards Finding No. 8: Controls over furniture, fixtures, and equipment used in Federal programs could be enhanced.

Audit Objectives and Scope

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

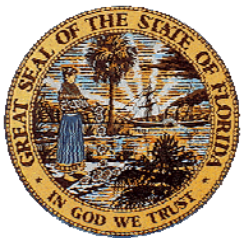
- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or 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. 2010-166.**

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, 2010. 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*.

THIS PAGE INTENTIONALLY LEFT BLANK.



AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-488-5534
FAX: 850-488-6975

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, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 19 percent of the assets and 95 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Gadsden County District School Board as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 38 through 41) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- The District's total net assets increased by $196.8 thousand, or 0.3 percent.
- General revenues totaled $55.2 million, or 90 percent of all revenues for the 2009-10 fiscal year, as compared to $52.5 million, or 83 percent for the 2008-09 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled $5.9 million, or 10 percent of all revenues as compared to $10.7 million, or 17 percent in the prior fiscal year.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $2.8 million at June 30, 2010, or 7 percent of General Fund expenditures as compared to $1.8 million, or 4 percent of expenditures at June 30, 2009.
- During the current fiscal year, General Fund revenues exceeded expenditures by $994.4 thousand. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by $222.6 thousand.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

The government-wide statements present the District's governmental activities. These statements represent most of the District's services including its educational programs: basic, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State education finance program provide most of the resources that support these activities.

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

Fund Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

Net Assets, End of Year

	Governmental Activities	
	6-30-10	6-30-09
Current and Other Assets	$ 8,438,118.60	$ 5,704,911.85
Capital Assets	75,452,285.02	76,771,476.17
Total Assets	83,890,403.62	82,476,388.02
Long-Term Liabilities	6,425,075.99	5,596,867.32
Other Liabilities	717,558.53	328,528.06
Total Liabilities	7,142,634.52	5,925,395.38
Net Assets:		
Invested in Capital Assets - Net of Related Debt	73,847,285.02	74,996,476.17
Restricted	4,523,008.68	3,114,892.08
Unrestricted Deficit	(1,622,524.60)	(1,560,375.61)
Total Net Assets	$ 76,747,769.10	$ 76,550,992.64

The largest portion of the District's net assets (96 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totals $3,197,551.39, after exclusion of $2,680,877.99 for compensated absences payable and $2,139,198.00 for other postemployment benefits payable, which may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

	Operating Results for the Year	
	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	$ 413,022.83	$ 511,676.06
Operating Grants and Contributions	5,054,390.58	5,175,263.42
Capital Grants and Contributions	433,172.30	5,045,293.45
General Revenues:		
Property Taxes, Levied for Operational Purposes	9,647,014.35	8,516,786.21
Property Taxes, Levied for Capital Projects	2,243,610.43	2,552,152.70
Grants and Contributions Not Restricted to Specific Programs	42,403,838.76	40,787,475.30
Unrestricted Investment Earnings	57,105.67	19,414.26
Miscellaneous	840,827.63	642,394.29
Total Revenues	61,092,982.55	63,250,455.69
Functions/Program Expenses:		
Instruction	29,669,632.49	28,177,836.67
Pupil Personnel Services	2,983,095.91	3,408,456.36
Instructional Media Services	844,687.16	752,573.98
Instruction and Curriculum Development Services	2,234,862.47	2,491,951.34
Instructional Staff Training Services	1,153,342.02	1,437,203.96
Instruction Related Technology	74,164.69	77,300.38
School Board	712,685.78	636,435.42
General Administration	855,269.98	917,961.03
School Administration	3,455,597.63	2,902,536.43
Facilities Acquisition and Construction	365,357.26	1,195,346.17
Fiscal Services	521,363.34	488,690.66
Food Services	3,364,292.34	3,317,773.25
Central Services	435,108.46	409,333.44
Pupil Transportation Services	3,684,967.08	3,696,528.05
Operation of Plant	5,340,082.48	5,368,804.89
Maintenance of Plant	1,479,346.19	1,548,645.80
Administrative Technology Services	444,077.18	526,525.99
Community Services	450,465.85	334,208.40
Unallocated Interest on Long-Term Debt	87,006.28	95,904.15
Unallocated Depreciation Expense	2,740,801.50	2,282,361.41
Total Functions/Program Expenses	60,896,206.09	60,066,377.78
Increase in Net Assets	$ 196,776.46	$ 3,184,077.91

Capital grants and contributions decreased by $4.6 million, or 91 percent, due to decreases in Public Education Capital Outlay funding. Property taxes levied for operational purposes increased $1,130,228.14, or 13 percent, due in part to an additional tax levy for operating purposes. Grants and contributions not restricted to specific programs increased $1,616,363.46, or 4 percent, due to an increase in ARRA funds received, partially offset by a reduction in Florida Education Finance Program (FEFP) funding.

The largest revenue source is State revenue (51 percent). Revenues from State sources for current operations are primarily received through the FEFP funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Other State revenues are primarily for meeting the requirements of the class size amendment. Other State revenues decreased by $7.2 million, or 44 percent from the previous year, primarily due to the reduction of Public Education Capital Outlay Funds.

Instruction expenses represent 49 percent of total governmental expenses in the 2009-10 fiscal year. Instruction expenses increased by $1.5 million, or 5.3 percent, from the previous year due mainly to the employment of additional teachers to allow for class size reduction.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

General Fund. The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is $2.8 million, while the total fund balance is $3.8 million. The unreserved fund balance increased by $953.5 thousand, while the total fund balance increased by $1.5 million during the fiscal year. Key factors in this growth are as follows:

- Total revenue decreased by $2.4 million, due mainly to the reduction in State funding.
- However, total expenditures decreased by an even larger amount, $3.1 million, due mainly to receiving Federal stimulus funds recorded and expended in the Special Revenue - ARRA Economic Stimulus Fund. These funds were primarily used to pay annual contract teachers' salaries.

Special Revenue – Other Fund. The District accounts for the financial resources of certain Federal grant programs in the Special Revenue – Other Fund and, for the 2009-10 fiscal year, had revenues and expenditures totaling $7,821,253.37 each.

Special Revenue – ARRA Economic Stimulus Fund. The District accounts for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) in this fund and, for the 2009-10 fiscal year, this fund had revenues and expenditures totaling $4,220,346.20 each.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of $2.5 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased in the current fiscal year by approximately $943.1 thousand, due to the postponement of planned bus purchases until the 2010-11 fiscal year. It should be noted that approximately $2.3 million of the total fund balance has been encumbered, the majority of which is for pending bus purchases.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant variations between the original and final budget amounts or between the final budget and actual amounts for the General Fund.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to $75.5 million (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

There were no major capital asset events during the current fiscal year. Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2010, the District has total long-term debt outstanding of $1.6 million. This amount is comprised of bonds payable. During the fiscal year, retirement of debt amounted to $295 thousand.

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

OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education under provisions of Section 1011.62, Florida Statutes. Funding from this formula is based on factors such as the legislative determination of the base student allocation, and the number of full-time equivalent students enrolled in the District. Given the current local and State economy, it is expected that the District will continue to see a reduction in State formula funding. To date, the District has been able to offset the reduction in State and local funding through Federal ARRA stimulus funding. The District will continue with current plans to reduce expenses and build reserves to offset future reductions.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the Gadsden County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Business and Finance, Gadsden County District School Board, 35 Martin Luther King, Jr. Boulevard, Quincy, FL 32351.

BASIC FINANCIAL STATEMENTS

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2010

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	5,719,215.53
Investments		110,749.90
Accounts Receivable		109,691.26
Due from Other Agencies		2,223,113.36
Prepaid Items		401.70
Inventories		274,946.85
Capital Assets:		
Nondepreciable Capital Assets		1,801,806.54
Depreciable Capital Assets, Net		73,650,478.48
TOTAL ASSETS	$	83,890,403.62
LIABILITIES		
Salaries and Benefits Payable	$	31.52
Payroll Deductions and Withholdings		1,130.30
Accounts Payable		707,244.55
Due to Other Agencies		5,550.00
Estimated Insurance Claims Payable		3,602.16
Long-Term Liabilities:		
Portion Due Within One Year		765,000.00
Portion Due After One Year		5,660,075.99
Total Liabilities		7,142,634.52
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		73,847,285.02
Restricted for:		
State Required Carryover Programs		604,654.74
Debt Service		46,880.06
Capital Projects		3,411,092.52
Food Service		460,381.36
Unrestricted Deficit		(1,622,524.60)
Total Net Assets		76,747,769.10
TOTAL LIABILITIES AND NET ASSETS	$	83,890,403.62

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

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$ 29,669,632.49	$ 109,572.48	$	$	$ (29,560,060.01)
Pupil Personnel Services	2,983,095.91				(2,983,095.91)
Instructional Media Services	844,687.16				(844,687.16)
Instruction and Curriculum Development Services	2,234,862.47				(2,234,862.47)
Instructional Staff Training Services	1,153,342.02				(1,153,342.02)
Instruction Related Technology	74,164.69				(74,164.69)
School Board	712,685.78				(712,685.78)
General Administration	855,269.98				(855,269.98)
School Administration	3,455,597.63				(3,455,597.63)
Facilities Acquisition and Construction	365,357.26			190,127.62	(175,229.64)
Fiscal Services	521,363.34				(521,363.34)
Food Services	3,364,292.34	225,577.84	3,188,848.58		50,134.08
Central Services	435,108.46				(435,108.46)
Pupil Transportation Services	3,684,967.08	77,872.51	1,865,542.00		(1,741,552.57)
Operation of Plant	5,340,082.48				(5,340,082.48)
Maintenance of Plant	1,479,346.19				(1,479,346.19)
Administrative Technology Services	444,077.18				(444,077.18)
Community Services	450,465.85				(450,465.85)
Unallocated Interest on Long-Term Debt	87,006.28			243,044.68	156,038.40
Unallocated Depreciation Expense*	2,740,801.50				(2,740,801.50)
Total Governmental Activities	$ 60,896,206.09	$ 413,022.83	$ 5,054,390.58	$ 433,172.30	(54,995,620.38)

General Revenues:	
Taxes:	
Property Taxes, Levied for Operational Purposes	9,647,014.35
Property Taxes, Levied for Capital Projects	2,243,610.43
Grants and Contributions Not Restricted to Specific Programs	42,403,838.76
Unrestricted Investment Earnings	57,105.67
Miscellaneous	840,827.63
Total General Revenues	55,192,396.84
Change in Net Assets	196,776.46
Net Assets - Beginning	76,550,992.64
Net Assets - Ending	$ 76,747,769.10

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

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

THIS PAGE INTENTIONALLY LEFT BLANK.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	$ 2,104,687.65	$ 4,429.03	$ 3,602.16
Investments	66,107.67		
Accounts Receivable	53,974.54	189.00	
Due from Other Funds	1,467,824.50		
Due from Other Agencies	284,267.66	1,515,678.08	281,843.38
Inventories	157,363.72		
Prepaid Items		401.70	
TOTAL ASSETS	$ 4,134,225.74	$ 1,520,697.81	$ 285,445.54
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 31.52	$	$
Payroll Deductions and Withholdings	1,130.30		
Accounts Payable	192,306.81	377,284.86	7,294.64
Due to Other Funds	142,980.00	1,138,983.93	274,548.74
Due to Other Agencies			
Deferred Revenue			3,602.16
Total Liabilities	336,448.63	1,516,268.79	285,445.54
Fund Balances:			
Reserved for State Required Carryover Programs	604,654.74		
Reserved for Encumbrances	239,939.52		
Reserved for Inventories	157,363.72		
Reserved for Debt Service			
Unreserved:			
Designated for Annual Leave Payments	818,759.39		
Undesignated, Reported in:			
General Fund	1,977,059.74		
Special Revenue Funds		4,429.02	
Capital Projects Funds			
Total Fund Balances	3,797,777.11	4,429.02	
TOTAL LIABILITIES AND FUND BALANCES	$ 4,134,225.74	$ 1,520,697.81	$ 285,445.54

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$ 2,479,798.26	$ 1,126,698.43	$ 5,719,215.53
	44,642.23	110,749.90
		54,163.54
142,980.00	1,235.89	1,612,040.39
2,567.19	138,757.05	2,223,113.36
	117,583.13	274,946.85
		401.70
$ 2,625,345.45	$ 1,428,916.73	$ 9,994,631.27
$	$	$ 31.52
		1,130.30
117,119.42	13,238.82	707,244.55
		1,556,512.67
	5,550.00	5,550.00
		3,602.16
117,119.42	18,788.82	2,274,071.20
		604,654.74
2,274,177.85		2,514,117.37
	117,583.13	274,946.85
	46,880.06	46,880.06
		818,759.39
		1,977,059.74
	342,798.23	347,227.25
234,048.18	902,866.49	1,136,914.67
2,508,226.03	1,410,127.91	7,720,560.07
$ 2,625,345.45	$ 1,428,916.73	$ 9,994,631.27

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds		$ 7,720,560.07
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.		75,452,285.02
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	$ 1,605,000.00	
Compensated Absences Payable	2,680,877.99	
Other Postemployment Benefits Payable	2,139,198.00	(6,425,075.99)
Total Net Assets - Governmental Activities		$ 76,747,769.10

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

THIS PAGE INTENTIONALLY LEFT BLANK.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 235,011.56	$ 2,293,266.39	$ 102,029.53
Federal Through State and Local	966,173.28	5,527,986.98	4,118,316.67
State	30,796,235.62		
Local:			
Property Taxes	9,647,014.35		
Charges for Services - Food Service			
Miscellaneous	1,113,268.52		
Total Revenues	42,757,703.33	7,821,253.37	4,220,346.20
Expenditures			
Current - Education:			
Instruction	21,476,746.14	4,120,211.92	3,312,129.71
Pupil Personnel Services	1,631,544.79	1,003,027.22	317,134.58
Instructional Media Services	753,636.35	47,160.98	21,938.70
Instruction and Curriculum Development Services	1,237,259.21	959,596.34	62,376.27
Instructional Staff Training Services	187,899.52	845,967.45	123,304.30
Instruction Related Technology	55,108.28	17,979.19	
School Board	679,000.36	412.37	33,273.05
General Administration	602,766.72	230,006.47	3,188.62
School Administration	3,401,225.51	31,016.51	
Facilities Acquisition and Construction	75,893.63	8,640.00	14,485.80
Fiscal Services	503,703.75		
Food Services	10,587.18		851.64
Central Services	347,108.52	77,126.50	325.00
Pupil Transportation Services	3,153,677.51	280,636.14	
Operation of Plant	5,259,620.69	35,794.44	
Maintenance of Plant	1,497,793.11		
Administrative Technology Services	407,317.03	27,134.31	
Community Services	382,070.85	49,164.48	
Fixed Capital Outlay:			
Facilities Acquisition and Construction		3,620.00	
Other Capital Outlay	100,362.27	83,759.05	331,338.53
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	41,763,321.42	7,821,253.37	4,220,346.20
Excess (Deficiency) of Revenues Over Expenditures	994,381.91		
Other Financing Sources (Uses)			
Transfers In	485,495.00		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Refunded Bond Escrow Agent			
Insurance Loss Recoveries	7,645.96		
Transfers Out			
Total Other Financing Sources (Uses)	493,140.96		
Net Change in Fund Balances	1,487,522.87		
Fund Balances, Beginning	2,310,254.24	4,429.02	
Fund Balances, Ending	$ 3,797,777.11	$ 4,429.02	$ 0.00

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 2,630,307.48
	3,334,923.31	13,947,400.24
	517,458.30	31,313,693.92
2,243,610.43		11,890,624.78
	225,577.84	225,577.84
1,054.32	1,216.18	1,115,539.02
2,244,664.75	4,079,175.63	61,123,143.28
		28,909,087.77
		2,951,706.59
		822,736.03
		2,259,231.82
		1,157,171.27
		73,087.47
		712,685.78
		835,961.81
		3,432,242.02
262,884.38		361,903.81
		503,703.75
	3,353,779.51	3,365,218.33
		424,560.02
		3,434,313.65
		5,295,415.13
		1,497,793.11
		434,451.34
		431,235.33
334,411.38	563,749.60	901,780.98
218,725.22	1,135.60	735,320.67
	160,000.00	160,000.00
	88,141.30	88,141.30
816,020.98	4,166,806.01	58,787,747.98
1,428,643.77	(87,630.38)	2,335,395.30
		485,495.00
	125,000.00	125,000.00
	11,060.35	11,060.35
	(134,925.33)	(134,925.33)
		7,645.96
(485,495.00)		(485,495.00)
(485,495.00)	1,135.02	8,780.98
943,148.77	(86,495.36)	2,344,176.28
1,565,077.26	1,496,623.27	5,376,383.79
$ 2,508,226.03	$ 1,410,127.91	$ 7,720,560.07

GADSDEN 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, 2010

Net Change in Fund Balances - Governmental Funds		$ 2,344,176.28
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.		(1,319,191.15)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceed proceeds in the current period.		
Bond Proceeds	$ (125,000.00)	
Bond Principal Payments	295,000.00	170,000.00
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 paid in excess of the amount earned in the current period.		79,712.33
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.		(1,077,921.00)
Change in Net Assets - Governmental Activities		$ 196,776.46

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

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2010

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	340,027.12
LIABILITIES		
Due to Other Funds	$	55,527.72
Internal Accounts Payable		284,499.40
Total Liabilities	$	340,027.12

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

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 Gadsden County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Gadsden County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Gadsden County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

- **Basis of Presentation**

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

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

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

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

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

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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).
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

➢ **Basis of Accounting**

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

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

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

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

➢ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA)

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

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

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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 0.67353149 at June 30, 2010. 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 Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

- **Inventories**

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

- **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $750 for assets acquired on or after the 2006-07 fiscal year. The capitalization threshold prior to that period was $500, and those assets remain in the capital asset balances. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Buildings and fixed equipment are depreciated using the straight-line method, with all other assets being depreciated using the composite method of depreciation, over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	10 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	5 - 7 years
Motor Vehicles	5 - 10 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.

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

- **State Revenue Sources**

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

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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 Gadsden County Property Appraiser, and property taxes are collected by the Gadsden County Tax Collector.

The Board adopted the 2009 tax levy on September 15, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **Federal Revenue Sources**

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

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

➢ **Budgetary Information**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

➢ **Expenditures Over Appropriations in Individual Funds**

For the fiscal year ended June 30, 2010, expenditures exceed appropriations for the following individual funds:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General:			
Instructional Media Services	$ 717,152.47	$ 753,636.35	$ (36,483.88)
Instructional Staff Training Services	169,257.05	187,899.52	(18,642.47)
Instruction Related Technology	54,984.63	55,108.28	(123.65)
Food Services	9,080.84	10,587.18	(1,506.34)
Operation of Plant	5,097,661.04	5,259,620.69	(161,959.65)
Special Revenue - Other:			
Facilities Acquisition and Construction		8,640.00	(8,640.00)
Community Services	35,500.79	49,164.48	(13,663.69)

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	$ 1,965,565.15
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	66,107.67
Debt Service Accounts	6 Months	44,642.23
Total Investments		$ 2,076,315.05

Note: (1) Investments reported as a cash equivalent for financial statement reporting purposes.

Interest Rate Risk

- The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. 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 8.05 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, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit the District's investment choices.
- 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 interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 1,801,806.54	$	$	$ 1,801,806.54
Construction in Progress	3,477,036.80	526,197.60	4,003,234.40	
Total Capital Assets Not Being Depreciated	5,278,843.34	526,197.60	4,003,234.40	1,801,806.54
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,823,352.00	332,304.69		4,155,656.69
Buildings and Fixed Equipment	90,074,451.64	4,003,234.40		94,077,686.04
Furniture, Fixtures, and Equipment	7,462,112.92	416,430.07	504,389.18	7,374,153.81
Motor Vehicles	6,445,767.83	307,414.00	905,972.00	5,847,209.83
Audio Visual Materials and Computer Software	3,646,427.76	6,948.60	3,534,771.83	118,604.53
Total Capital Assets Being Depreciated	111,452,112.15	5,066,331.76	4,945,133.01	111,573,310.90
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,560,126.77	67,329.90		2,627,456.67
Buildings and Fixed Equipment	23,674,387.66	1,914,923.45		25,589,311.11
Furniture, Fixtures, and Equipment	5,377,314.53	328,982.76	504,389.18	5,201,908.11
Motor Vehicles	5,212,792.79	167,684.61	905,972.00	4,474,505.40
Audio Visual Materials and Computer Software	3,134,857.57	429,565.39	3,534,771.83	29,651.13
Total Accumulated Depreciation	39,959,479.32	2,908,486.11	4,945,133.01	37,922,832.42
Total Capital Assets Being Depreciated, Net	71,492,632.83	2,157,845.65		73,650,478.48
Governmental Activities Capital Assets, Net	$ 76,771,476.17	$ 2,684,043.25	$ 4,003,234.40	$ 75,452,285.02

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 167,684.61
Unallocated	2,740,801.50
Total Depreciation Expense - Governmental Activities	$ 2,908,486.11

5. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 1,495,000	5.0	2018
Series 2009A, Refunding	110,000	3.0 - 5.0	2019
Total Bonds Payable	$ 1,605,000		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	$ 244,650.00	$ 165,000.00	$ 79,650.00
2012	246,700.00	175,000.00	71,700.00
2013	248,100.00	185,000.00	63,100.00
2014	239,000.00	185,000.00	54,000.00
2015	244,750.00	200,000.00	44,750.00
2016-2019	757,500.00	695,000.00	62,500.00
Total State School Bonds	$1,980,700.00	$1,605,000.00	$ 375,700.00

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	$ 1,775,000.00	$ 125,000.00	$ 295,000.00	$ 1,605,000.00	$ 165,000.00
Compensated Absences Payable	2,760,590.32	301,300.09	381,012.42	2,680,877.99	600,000.00
Other Postemployment Benefits Payable	1,061,277.00	1,962,957.00	885,036.00	2,139,198.00	
Total Governmental Activities	$ 5,596,867.32	$ 2,389,257.09	$ 1,561,048.42	$ 6,425,075.99	$ 765,000.00

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

7. INTERFUND RECEIVABLES AND PAYABLES

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 1,467,824.50	$ 142,980.00
Special Revenue:		
Other		1,138,983.93
ARRA Economic Stimulus		274,548.74
Capital Projects:		
Local Capital Improvement	142,980.00	
Nonmajor Governmental	1,235.89	
Fiduciary		55,527.72
Total	$ 1,612,040.39	$ 1,612,040.39

The interfund balance between the General Fund and Capital Projects – Local Capital Improvement Fund represents a correction of expenditures as originally charged. The interfund balance between the nonmajor governmental funds and the fiduciary fund represents petty cash balances at school food service sites. The remaining interfund balances arose because these three funds had overdrawn their share of the District's pooled cash and investment accounts. The District has designated the General Fund to be the loaning fund. The interfund payable between the fiduciary fund and the General Fund represents vocational course fees collected but not yet remitted to the District at fiscal year-end.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 485,495.00	$
Capital Projects:		
Local Capital Improvement		485,495.00
Total	$ 485,495.00	$ 485,495.00

The purpose of the interfund transfer was to pay for property casualty insurance premiums.

8. 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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

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 and Special Revenue – ARRA Economic Stimulus Fund total $165,969.30 and $8,041.69, respectively, at June 30, 2010.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Florida Education Finance Program	$ 22,076,798.00
Categorical Educational Program - Class Size Reduction	6,173,746.00
Voluntary Prekindergarten Program	810,601.63
Workforce Development Program	645,816.00
Adults with Disabilities	360,790.15
Motor Vehicle License Tax (Capital Outlay and Debt Service)	294,083.60
Gross Receipts Tax (Public Education Capital Outlay)	193,199.00
School Recognition	190,580.00
Charter School Capital Outlay	143,460.00
Miscellaneous	424,619.54
Total	$ 31,313,693.92

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

10. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.482	$ 8,412,834.64
Basic Discretionary Local Effort	0.498	764,245.10
Supplemental Discretionary Local Effort	0.250	383,657.18
Critical Operating Needs	0.250	383,657.18
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,301,943.08
Total	7.980	$ 12,246,337.18

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

11. 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 Florida 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, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in 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 Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 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, Special Risk	0.00	20.92
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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $3,442,786.54, $3,091,941.45, and $2,789,395.55, respectively, which were equal to the required contributions for each fiscal year. There were 96 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled $256,670.73.

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.

12. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug 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. Pursuant to Section 112.0801, Florida Statutes, the District contributed towards the costs of healthcare benefits for former employees who retired prior to May 2, 2001. Effective

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

October 1, 2002, the Board decreased its contribution from $50 to $30 per month per former retired employee. Premiums totaled $71,360 for the 2009-10 fiscal year, and the District provided benefits to 156 retired former employees at June 30, 2010. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The 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. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 296 retirees received other postemployment benefits. The District provided required contributions of $885,036 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees and net of retiree contributions totaling $897,452, which represents 3.1 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 Governmental Accounting Standards Board 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:

Description	Amount
Normal Cost (service cost for one year)	$ 913,164
Amortization of Unfunded Actuarial Accrued Liability	962,322
Interest on Normal Cost and Amortization	82,993
Annual Required Contribution	1,958,479
Interest on Net OPEB Obligation	37,675
Adjustment to Annual Required Contribution	(33,197)
Annual OPEB Cost (Expense)	1,962,957
Contribution Toward the OPEB Cost	(885,036)
Increase in Net OPEB Obligation	1,077,921
Net OPEB Obligation, Beginning of Year	1,061,277
Net OPEB Obligation, End of Year	$ 2,139,198

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2010 and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	$ 0	0.00%	$ 0
2008-09	1,887,208	43.76%	1,061,277
2009-10	1,962,957	45.09%	2,139,198

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was $29,070,050, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $29,070,050 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $27,912,948, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 104.1 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 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 October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and to estimate the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 4 percent, rising to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 28 years.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

13. 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. Workers' compensation, automobile liability, general liability, buildings and contents, boiler and machinery, errors and omissions, and employee health and hospitalization, life, and dental coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

14. LITIGATION

The District is involved in several pending and threatened legal actions. The range of loss from all claims and actions, as estimated by District management, should not materially affect the financial condition of the District.

15. OTHER LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims should become a liability of the General Fund or other applicable funds. The questioned costs identified in the audits for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $20,041.00, $132,898.80, and $1,083,074.14, respectively for a total of $1,236,013.94.

16. SUBSEQUENT EVENTS

During the 2009-10 fiscal year, the District contracted for the future purchase of 24 school buses. Although it was originally anticipated that the buses would be delivered around February 2010, these buses were not received until August 2010, subsequent to the end of the 2009-10 fiscal year. Upon receipt of the buses in August 2010, the District entered into a local loan agreement totaling $1,818,042.00 to fund the purchase, with scheduled debt service payments due and payable at regular intervals in each of the next five years.

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 150,000.00	$ 250,000.00	$ 235,011.56	$ (14,988.44)
Federal Through State and Local	238,428.97	784,231.35	966,173.28	181,941.93
State	31,770,783.00	30,901,217.00	30,796,235.62	(104,981.38)
Local:				
Property Taxes	9,522,714.00	9,522,714.00	9,647,014.35	124,300.35
Miscellaneous	431,000.00	440,117.08	1,113,268.52	673,151.44
Total Revenues	42,112,925.97	41,898,279.43	42,757,703.33	859,423.90
Expenditures				
Current - Education:				
Instruction	23,356,194.43	23,607,488.99	21,476,746.14	2,130,742.85
Pupil Personnel Services	1,829,319.17	1,784,153.04	1,631,544.79	152,608.25
Instructional Media Services	662,703.19	717,152.47	753,636.35	(36,483.88)
Instruction and Curriculum Development Services	1,292,544.41	1,366,259.70	1,237,259.21	129,000.49
Instructional Staff Training Services	117,109.79	169,257.05	187,899.52	(18,642.47)
Instruction Related Technology	7,000.00	54,984.63	55,108.28	(123.65)
School Board	551,145.69	784,016.52	679,000.36	105,016.16
General Administration	642,246.76	651,908.75	602,766.72	49,142.03
School Administration	3,088,891.35	3,430,772.75	3,401,225.51	29,547.24
Facilities Acquisition and Construction	78,941.31	79,351.31	75,893.63	3,457.68
Fiscal Services	491,389.72	516,184.59	503,703.75	12,480.84
Food Services		9,080.84	10,587.18	(1,506.34)
Central Services	383,063.56	398,456.94	347,108.52	51,348.42
Pupil Transportation Services	3,151,404.75	3,264,358.64	3,153,677.51	110,681.13
Operation of Plant	5,269,148.70	5,097,661.04	5,259,620.69	(161,959.65)
Maintenance of Plant	1,684,230.20	1,670,395.38	1,497,793.11	172,602.27
Administrative Technology Services	428,792.99	482,228.07	407,317.03	74,911.04
Community Services	20,184.12	508,864.79	382,070.85	126,793.94
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		100,362.27	100,362.27	
Total Expenditures	43,054,310.14	44,692,937.77	41,763,321.42	2,929,616.35
Excess (Deficiency) of Revenues Over Expenditures	(941,384.17)	(2,794,658.34)	994,381.91	3,789,040.25
Other Financing Sources				
Transfers In			485,495.00	485,495.00
Insurance Loss Recoveries			7,645.96	7,645.96
Total Other Financing Sources			493,140.96	493,140.96
Net Change in Fund Balances	(941,384.17)	(2,794,658.34)	1,487,522.87	4,282,181.21
Fund Balances, Beginning	2,221,528.70	2,221,528.70	2,310,254.24	88,725.54
Fund Balances, Ending	$ 1,280,144.53	$ (573,129.64)	$ 3,797,777.11	$ 4,370,906.75

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)
$ 653,406.38	$ 2,993,089.38	$ 2,293,266.39	$ (699,822.99)	$	$	$ 102,029.53	$ 102,029.53
1,152,822.70	9,292,020.71	5,527,986.98	(3,764,033.73)	3,832,985.16	6,055,536.87	4,118,316.67	(1,937,220.20)
1,806,229.08	12,285,110.09	7,821,253.37	(4,463,856.72)	3,832,985.16	6,055,536.87	4,220,346.20	(1,835,190.67)
1,086,508.33	6,852,188.07	4,120,211.92	2,731,976.15	3,215,323.00	4,378,712.69	3,312,129.71	1,066,582.98
100,113.52	1,147,031.81	1,003,027.22	144,004.59	39,164.00	645,278.62	317,134.58	328,144.04
2,920.00	54,196.23	47,160.98	7,035.25		51,377.42	21,938.70	29,438.72
339,755.12	1,666,210.93	959,596.34	706,614.59	24,500.00	92,107.83	62,376.27	29,731.56
24,195.94	1,223,013.37	845,967.45	377,045.92	117,570.00	354,330.11	123,304.30	231,025.81
	20,600.00	17,979.19	2,620.81				
	412.37	412.37			33,273.05	33,273.05	
133,876.23	426,594.99	230,006.47	196,588.52	37,970.00	103,109.88	3,188.62	99,921.26
3,587.60	36,193.63	31,016.51	5,177.12				
		8,640.00	(8,640.00)		30,468.58	14,485.80	15,982.78
				55,934.00			
737.00				66,855.16	1,670.16	851.64	818.52
95,183.86	89,729.66	77,126.50	12,603.16	45,669.00	325.00	325.00	
	533,846.77	280,636.14	253,210.63	230,000.00	33,545.00		33,545.00
15,802.53	79,322.60	35,794.44	43,528.16				
2,800.00	2,800.00		2,800.00				
	45,708.82	27,134.31	18,574.51				
748.95	35,500.79	49,164.48	(13,663.69)				
	3,620.00	3,620.00					
	83,759.05	83,759.05			331,338.53	331,338.53	
1,806,229.08	12,300,729.09	7,821,253.37	4,479,475.72	3,832,985.16	6,055,536.87	4,220,346.20	1,835,190.67
	(15,619.00)		15,619.00				
	(15,619.00)		15,619.00				
4,429.02	4,429.02	4,429.02					
$ 4,429.02	$ (11,189.98)	$ 4,429.02	$ 15,619.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

GADSDEN 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) - Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	$ 0	$ 29,070,050	$ 29,070,050	0.0%	$ 27,912,948	104.1%

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

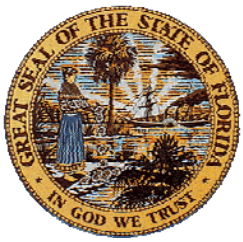
GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 735,336.72	$
National School Lunch Program	10.555	300, 350	2,207,938.21	
Summer Food Service Program for Children	10.559	323	161,287.65	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	221,907.64	
Total Child Nutrition Cluster			3,326,470.22	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	66,036.64	
Total United States Department of Agriculture			3,392,506.86	
United States Department of Justice:				
Direct:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	80,494.82	
United States Department of Labor:				
Indirect:				
Florida's Great Northwest, Inc.:				
WIA - Pilots, Demonstrations, and Research Projects	17.261	None	63,902.18	
United States Department of Education:				
Direct:				
Fund for the Improvement of Education	84.215	N/A	231,378.72	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	1,766,324.29	
Special Education - Preschool Grants	84.173	267	59,796.70	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	932,308.07	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	23,492.67	
University of South Florida:				
Special Education - Grants to States	84.027	None	1,500.00	
Total Special Education Cluster			2,783,421.73	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	2,269,515.15	55,591.48
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	222, 226	1,026,756.08	
Total Title I, Part A Cluster			3,296,271.23	55,591.48
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	23,036.34	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	58,257.58	
Total Educational Technology State Grants Cluster			81,293.92	
Education of Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	64,077.40	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	56,167.95	
Total Homeless Children and Youth Cluster			120,245.35	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,800,995.00	89,105.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	154,302.68	
Total State Fiscal Stabilization Fund Cluster			1,955,297.68	89,105.00
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	67,615.00	
Career and Technical Education - Basic Grants to States	84.048	161	210,164.37	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	18,812.73	
Twenty-First Century Community Learning Centers	84.287	244	460,244.23	
English Language Acquisition Grants	84.365	102	48,925.59	
Improving Teacher Quality State Grants	84.367	224	491,235.87	
School Improvement Grants	84.377	126	46,583.56	

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Indirect (Continued):				
Florida Agricultural and Mechanical University:				
TRIO-Upward Bound	84.047	None	$ 9,306.49	$
Florida State University:				
TRIO-Upward Bound	84.047	None	23,328.84	
Nova Southeastern University:				
Voluntary Public School Choice	84.361	None	52,944.57	
Tallahassee Community College:				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	None	89,115.29	
Washington County District School Board:				
Migrant Education - State Grant Program	84.011	None	35,500.00	
Total Indirect			9,790,306.45	144,696.48
Total United States Department of Education			10,021,685.17	144,696.48
United States Department of Health and Human Services:				
Direct:				
Head Start Cluster:				
Head Start	93.600 (3)	N/A	2,061,887.67	
ARRA - Head Start	93.708 (4)	N/A	102,029.53	
Total United States Department of Health and Human Services			2,163,917.20	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	1,655.75	
Tallahassee Community College:				
AmeriCorps	94.006	None	254,392.51	
ARRA - AmeriCorps	94.006	None	126,074.18	
Total Corporation for National and Community Service			382,122.44	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	111,779.26	
Total Expenditures of Federal Awards			$ 16,216,407.93	$ 144,696.48

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 received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(3) Head Start. Expenditures include $769,790.38 for grant number/program year 04CH0241/24, $1,292,097.29 for grant number/program year 04CH0241/25.
(4) Head Start - ARRA. Expenditures include $102,029.53 for grant number/program year 04SE0241/01.



AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-488-5534
FAX: 850-488-6975

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, each major fund, and the aggregate remaining fund information of the Gadsden County District School Board as of and for the fiscal year ended June 30, 2010, 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. Our audit did not extend to the school and activity funds, commonly called the school internal funds. 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, as described in our report on the Gadsden County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 1 through 3, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

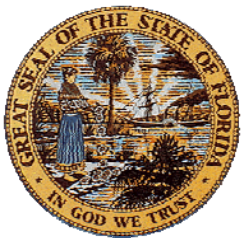
We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

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

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 24, 2011



AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

PHONE: 850-488-5534
FAX: 850-488-6975

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

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

Compliance

We have audited the Gadsden County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Matching, Level of Effort, and Earmarking applicable to its Title I, Part A Cluster program. Also, 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 Matching, Level of Effort, and Earmarking and Allowable Costs/Cost Principles

applicable to its Improving Teacher Quality program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 8.

Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1, and as Federal Awards Finding No. 2 for the Improving Teacher Quality program, to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2 for the Title I, Part A Cluster program, and Federal Awards Finding Nos. 3 through 8, to be significant deficiencies.

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

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 24, 2011

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA) and Improving Teacher Quality State Grants (CFDA No. 84.367) programs, which were qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); Improving Teacher Quality State Grants (CFDA No. 84.367); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA); Head Start Cluster (CFDA Nos. 93.600 and 93.708 – ARRA); and AmeriCorps (CFDA No. 94.006)
Dollar threshold used to distinguish between Type A and Type B programs:	$486,492
Auditee qualified as low-risk auditee?	No

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

Finding No. 1: Information Technology – Appropriateness of Access Privileges

The implementation of separation of duties by management eliminates the possibility for a single employee to subvert a critical process. An appropriate separation of duties is typically enforced through system access privileges that restrict employees to performing only those system functions that are necessary for their job duties.

We reviewed the information technology (IT) access privileges to the finance and human resources applications and identified some individuals with assigned access privileges that did not enforce an appropriate separation of duties. For example:

- A financial consultant periodically provided assistance to the Finance Department, but had unrestricted security access to all screens within the finance and human resources applications. Consequently, this user had the ability to initiate numerous entries, including: adding, updating, or removing vendors, employees, property items, and accounting fields; adding or updating invoice and purchase order information; posting journal entries to the general ledger; and adding or updating employee information, changing rates of pay, adding or changing other compensation, and adding or changing payroll deductions. To compensate, in part, for these incompatible access privileges, the assistant superintendent for business and finance indicated that she, and other Finance Department employees, regularly monitor department budgets and expenditures and report various financial information to the Board on a monthly basis.
- The assistant comptroller, assistant superintendent for business and finance, and a payroll account clerk had the ability to update certain screens in the finance and human resources applications that were not necessary to fulfill their assigned job duties. The assistant comptroller had financial recordkeeping responsibilities and was not responsible for establishing or revising employee information or performing other personnel-related functions; however, the assistant comptroller had update access to all human resource screens. Also, the assistant superintendent had supervisory oversight responsibilities of the Finance Department and was not responsible for entering journal entries to the accounting records, but held update access to the screens in the finance module that allow for this function. In addition, the payroll account clerk had daily responsibilities consisting of entering and tracking employee leave, attendance, and retirement records, but had update access to all payroll and personnel-related screens within the human resources module that provide the ability, among other things, to initiate payrolls, add or change vendor information, and revise pay rates and timesheet information. Subsequent to our inquiry, District personnel modified access assigned to the assistant superintendent and the payroll account clerk on October 26, 2010.
- The cash manager had the ability to add or update vendor information, add or update invoice and purchase order information, and post journal entries to the general ledger; had the responsibility of reconciling bank statements; and had access to blank checks and signature stamps. This employee also had the ability to perform multiple personnel and payroll functions, including the ability to add or update employee information, change rates of pay, add or change other compensation including substitute pay, add or change payroll deductions, and process payrolls. To compensate, in part, for these incompatible access privileges, the assistant superintendent for business and finance indicated that she, and other Finance Department employees, regularly monitor financial activities, as discussed above.

- A finance account clerk had the ability to add or update vendor information, add or update invoice and purchase order information, and post journal entries to the general ledger; had access to blank checks; and had the primary responsibility of regularly printing accounts payable warrants. To compensate, in part, for these incompatible access privileges, District personnel indicated that another Finance Department employee, while performing bank reconciliations, confirms the sequential continuity and completeness of all checks as they clear the bank.
- The chief payroll clerk had the ability to perform multiple personnel and payroll functions, including the ability to add or update employee information, change rates of pay, add or change other compensation including substitute pay, add or change payroll deductions, and process payrolls. The chief payroll clerk runs and reviews a payroll edit report showing all differences between the current payroll and the prior payroll, however, no employee independent of the payroll function reviews this report, and a copy of the edit report is not retained. To compensate, in part, for these incompatible access privileges, District personnel indicated that the assistant comptroller performs a cursory review of a salary and benefit allocation report to search for obvious irregularities, and the assistant superintendent for business and finance performs a cursory review of the current payroll run and previous payroll run to search for large discrepancies.

We reviewed Board minutes for personnel actions and the District's IT access privileges for employees who were reassigned or terminated employment during the 2009-10 fiscal year to determine whether the District timely restricted or removed the access privileges of these individuals. However, at the time of our review in September 2010, seven of these individuals continued to have access privileges for an average of 82 days after reassigned or terminated employment. Without timely update of access privileges, the risk is increased that the access privileges could be misused.

We also reviewed the appropriateness of access privileges granted within the Time Sharing Option (TSO) environment that provided the ability to access finance and human resources data files outside of imposed finance and human resources application controls whereby users with the TSO system privilege could make unauthorized changes to production data by creating a new computer program, modifying an existing program, or running a data change utility. Our test of 24 individuals who had the TSO system privilege disclosed 6 employees and a consultant who had inappropriate access to the TSO system. Additionally, our test disclosed that 2 former employees who terminated employment during the 2009-10 fiscal year had active TSO system privilege accounts for 130 and 367 days, respectively, after the employees' termination dates.

We were able to expand our audit procedures and did not note any errors or fraud resulting from the above deficiencies. Nevertheless, absent controls to fully compensate for the above-referenced incompatible duties, there is an increased risk of unauthorized or erroneous payments or data entries that may not be detected in a timely manner. District personnel indicated that they believed access privileges left uncorrected after October 26, 2010, were necessary for not only currently assigned responsibilities of the various individuals, but also all potential backup responsibilities that are necessary to ensure that critical operations are able to continue in the event of key personnel being unavailable to perform primary responsibilities. However, the extensive combination of IT access privileges that remain outstanding represents a control weakness such that there is an increased risk of errors or fraud that, should they occur, may not be detected in a timely manner.

Recommendation: The District should review the appropriateness of the access privileges of employees and others on an ongoing basis and should timely remove any incompatible or unnecessary access granted.

Finding No. 2: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that 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). In addition, United States Office of Management and Budget (OMB) *Circular A-133* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that lists grants and their respective expenditures.

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, disclosed that procedures for reporting information on the financial statements could be improved. For example:

- To accrue liabilities, District personnel typically review invoices for goods and services received before fiscal year-end, but paid after that date. However, because of oversights, District personnel understated due from other agencies, accounts payable, Federal through State and local revenues, and instruction expenditures each by $199,584 in the Special Revenue – Other Fund. As a result, the District also understated Title I program expenditures by $199,584 on the SEFA, contrary to OMB *Circular A-133*. Misreporting Federal transactions and balances may cause individuals to incorrectly assess Federal program activities.
- 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 financial activity. However, the District omitted note disclosures explaining the reasons and amounts of interfund transfers from the Capital Projects – Local Capital Improvement Fund to the General Fund, totaling $485,495.

The errors and omissions noted above occurred because of oversights by District personnel. We extended our audit procedures to determine the adjustments necessary to properly report these account balances, transactions, and note disclosures on the District's financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in previous audit reports, most recently in our report No. 2010-166.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that information is properly reported on the financial statements, and notes thereto, and SEFA.

Finding No. 3: Capital Assets

The District reported capital assets with costs totaling approximately $75 million, net of accumulated depreciation, at June 30, 2010. To determine the balances reported for these assets, District personnel generally added the 2009-10 fiscal year capital outlay expenditures to the balances reported on the financial statements at June 30, 2009. While this procedure may result in materially correct balances in the District's financial statements, it is not a substitute for establishing and maintaining an adequate record system to account for the District's individual capital assets.

As similarly noted in several previous reports, most recently in our report No. 2010-166, our review of subsidiary records maintained for the District's various capital asset types disclosed that significant differences continued to exist between asset balances in the District's detailed subsidiary records and amounts reported on the financial statements at June 30, 2010, as follows:

Description	Balance – June 30, 2010			
	Per Note 4 of Financial Statements	Per Subsidiary Records	Differences	Explanations
Buildings and Fixed Equipment	$ 94,077,686.04	$ 90,234,606.13	$ 3,843,079.91	(1)
Audio Visual Materials and Computer Software	118,604.53	3,435,922.53	(3,317,318.00)	(2)
Improvements Other Than Buildings	$4,155,656.69	$2,365,360.26	$1,790,296.43	(3)
Total	$98,351,947.26	$96,035,888.92	$2,316,058.34	

Notes:

1) Buildings and fixed equipment differences were primarily caused by purchases associated with an energy savings contract totaling approximately $4 million made during the 2008-09 and 2009-10 fiscal years and not recorded in the District's subsidiary records.

2) Audio visual materials and computer software differences were primarily for items deleted from the general ledger during the 2009-10 fiscal year that had not been removed from the District's subsidiary records.

3) District records did not explain the differences noted above for improvements other than buildings.

Additional control deficiencies of capital asset property records are further discussed in Federal Awards Finding No. 8. Without accurate detailed subsidiary property records, based on applicable general ledger transactions, the District has limited assurance that proper accountability is established for these assets.

Recommendation: The District should establish controls over its capital assets to provide accurate detailed subsidiary records.

ADDITIONAL MATTERS

Finding No. 4: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that the Board may levy against the taxable value not more than 1.5 mills for specified capital outlay purposes. Section 1011.71(5), Florida Statutes, provides that a school district may expend up to $100 per unweighted full-time equivalent student from the revenue generated by the capital outlay tax levy for certain specified purposes, including paying the cost of premiums for property and casualty insurance necessary to insure school district educational and ancillary plants. The District accounts for the capital outlay tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

The District purchased commercial insurance through the Florida Municipal Insurance Trust, including property protection, general liability, automobile liability, workers' compensation, employment practices liability, and other coverage deemed necessary by the Board. The District paid premiums for this coverage totaling approximately $835,000 during the 2009-10 fiscal year, including $485,495 from the LCI fund. The portion paid from the LCI Fund included property premiums totaling $362,156; however, the remainder of the premium costs, totaling $123,339, represented general and professional liability, automobile insurance, and other insurance adjustments that were not insuring District educational and ancillary plants. As such, the $123,339 represents questioned costs.

Without controls to ensure that tax levy proceeds are properly expended, the risk is increased that the District will violate applicable expenditure restrictions. Section 1011.71(6), Florida Statutes, provides that a district that violates

the expenditure restrictions of Section 1011.71, Florida Statutes, shall have an equal dollar reduction in Florida Education Finance Program funds appropriated to the district in the fiscal year following the audit citation.

Recommendation: The District should enhance its procedures to ensure that capital outlay tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the $123,339 of capital outlay tax levy proceeds used for insurance premiums or restore this amount to the LCI Fund.

Finding No. 5: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

Our review of performance assessments for 23 instructional personnel and two school administrators disclosed that, due to oversights, the District did not prepare performance assessments of one of the instructors and the two school administrators. Generally, the District's performance assessment procedures were based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that District records did not sufficiently evidence that employees were evaluated based primarily on student performance. While the performance appraisals included student performance as a component of the evaluation, District records did not evidence a correlation between student performance and the employee's performance assessment nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should ensure that performance assessments are prepared for all instructional personnel and school administrators, based primarily on student performance, and maintain records evidencing this.

Finding No. 6: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to

negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

Board Policy 6.91 provides that salary schedules must include provisions for performance-based pay and differentiated pay in accordance with Florida Statutes; however, District personnel indicated that, historically, the union for instructional employees had not consented to differentiated pay. While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and union contract for instructional personnel listed salaries based on level of education and years of experience. The salary schedule also included salaries of school-based administrators based on the respective administrative classification and pay grade. Based on certain criteria, such as qualifications and past experience, the Superintendent approved the administrative pay grade of newly hired school-based administrators on the salary schedule up to a maximum of 25 percent above the minimum administrative pay grade. In addition, the salary schedule provided a 5 percent performance supplement that was added to school-based administrators' base salary for administrators who demonstrated outstanding performance. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. Contrary to Section 1012.22(1)(c)2., Florida Statutes, the instructional personnel salary schedule and union contract did not evidence that a portion of the compensation of each instructional employee was based on performance.

  The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the regular work day, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators**. District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties by providing differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

District personnel indicated that the Superintendent appointed a committee, comprised of three administrators, to discuss differentiated pay with union representatives. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 7: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-081, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

For the 2009-10 school year, the District reported 69,765 adult general education contact hours to FDOE and we tested 15,580 hours reported for 40 students enrolled in 112 courses. However, as similarly noted in previous audit reports, most recently in our report No. 2010-166, the District misreported hours as follows:

- Because District personnel sometimes improperly entered withdrawal dates in the student records system, the actual attendance hours were less than hours reported for seven students enrolled in 13 courses, resulting in 194 hours overreported. District personnel and records indicated that this occurred mainly because District personnel did not enter the withdrawal date as the date after the last day of attendance, contrary to FDOE guidance.
- One student, reported for 9,360 hours, was overreported by approximately 9,281 hours because of a clerical error. District personnel indicated that the error apparently occurred because a clerk mistakenly keyed a number into the incorrect section using a manual override.
- Attendance records were not available for two students enrolled in five courses, resulting in 104 unsupported hours reported.
- One student was reported twice in the same class under two different names and student identification numbers due to multiple clerical errors, resulting in 10 hours overreported.
- One student enrolled in a course was underreported by 12 hours because, due to clerical error, the course length was improperly established in the student records system.
- The actual attendance hours were greater than those reported for one student enrolled in a course, resulting in 53 hours underreported. District personnel were unaware of why these hours were improperly reported.

In addition, a systemic software error resulted in incorrect hours reported for the spring 2010 semester for any students enrolled in the same course in multiple reporting periods during the 2009-10 fiscal year. We tested 31 students enrolled in 63 classes for the spring 2010 semester, and the District underreported 1,249 hours in 20 classes, and overreported 1,282 hours in 34 classes.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to FDOE. Further, the District should determine the extent of adult general education hours misreported and contact FDOE for proper resolution.

Finding No. 8: Procurement

Controls over disbursements should provide for the documented approval of contracts prior to receiving contractual services. Such documentation serves to record management's prior authorization to acquire services, establish the terms of the agreement, and provide a basis for controlling budgeted appropriations. Section 1001.41(4), Florida Statutes, requires the Board to serve as contracting agent for the District, and Board Policy 7.70 provides that the Board will approve contracts for services, exceeding $7,500 and funded from the General Fund, before procuring such services. Our review disclosed that the District's controls over the procurement of consultant services could be enhanced, as follows:

- In July 2009, the Board approved a contract, with a maximum payout of $20,000, for accounting-related consulting services to be provided to the Finance Department throughout the 2009-10 fiscal year. The District obtained the consultant services to reduce existing workloads and provide stability to the Finance Department; however, during this period, District records indicated that the assistant superintendent for business and finance approved 13 payments to the consultant, totaling $66,375, exceeding the Board-approved contract by $46,375. Of the 13 payments, 7 payments totaling $36,675 referenced the Board-approved contract; however, 6 payments totaling $29,700 made no reference to a contract or purchase order, including payment of $4,125 that was presented for discussion at a Board workshop meeting after payment was made.
- In October 2009 and January 2010, respectively, the Board approved purchase orders, totaling $4,000, for services by another consultant to assist Finance Department personnel. District records indicated that the assistant superintendent for business and finance approved 10 periodic payments to this consultant, totaling $15,045, exceeding the Board-approved purchase orders by $11,045. Of the 10 payments, 4 payments totaling $4,425 made no reference to a contract or purchase order.

Failure to effectively control approval of contracts could cause billing disputes, result in expenditures exceeding budget limits, and increases the risk that the services provided are not in accordance with the Board's intent.

Recommendation: The District should enhance controls to ensure that payments for consultant services are limited to Board-approved amounts, and Board approval is obtained for contractual obligations exceeding $7,500 in accordance with Board Policy 7.70.

Finding No. 9: 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 is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide the individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. The section also provides that SSNs collected by the District may not be used for any purpose other than

those provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for the purposes that are not in compliance.

Our audit disclosed that the District needed to enhance its controls to ensure compliance with Section 119.071(5)(a), Florida Statutes, as follows:

- All individuals that receive background screenings, including vendors and certain volunteers, are required to provide their SSN to the personnel office on a fingerprint information sheet. There is no statement regarding the collection of the SSN on this form and District personnel indicated that no additional statement regarding the collection, use, or release of the SSN was provided to these individuals.
- Prospective Pre-K or Head Start program students are required to complete an "Application for Early Care and Pre-Kindergarten Programs in Gadsden County" packet that requests the student's SSN. Similarly, adult and vocational education students are required to complete a "Gadsden Technical Institute Registration and Personal Data Form" that requests the student's SSN. However, neither of these forms addressed the purposes for collecting the SSN; the specific Federal or State law governing the collection, use, or release of the SSN for each purpose; or whether collection of the SSN was authorized or mandatory under Federal or State law.
- Prospective employees are required to complete an application and a variety of other forms, many of which request the individual's SSN. Included in these forms is a SSN collection and usage form that must be signed, dated, and submitted with the other forms. However, this notification did not address the specific Federal or State laws governing the collection, use, or release of the SSN for each purpose for which the District collects the SSN or whether the collection of the SSN was authorized or mandatory under Federal or State law.

In addition, District records did not evidence that the District reviewed its compliance with the requirements of Section 119.071(5), Florida Statutes. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduces the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should ensure compliance with Section 119.071(5)(a), Florida Statutes.

Finding No. 10: Budgetary Controls

The process for adopting and amending the budget provides the District a mechanism to plan a level of expenditures to meet its obligations while remaining within available financial resources. Section 1011.05, Florida Statutes, provides that the official budget shall not be altered, amended, or exceeded except as authorized. Section 1011.06, Florida Statutes, provides that the Board may establish policies that allow expenditures to exceed the amount budgeted by function and object, if the Board approves the expenditure and amends the budget within timelines established by the policies. Pursuant to this statute, the Board adopted Board Policy 7.10, allowing expenditures to temporarily exceed the amount budgeted within a fund at the function and object level, provided the Board subsequently approves such expenditures and amends the budget the following month.

Our review disclosed that the original budget was prepared and approved in accordance with applicable laws and rules; however, improvements were needed in budgetary controls. At June 30, 2010, subsequent to Board approval of the final budget amendments, the District had budget overexpenditures, totaling $218,715.99, in five functional expenditure categories in the General Fund; and overexpenditures, totaling $22,303.69, in two functional expenditure categories in the Special Revenue - Other Fund. Without properly monitoring and amending the budget to meet changing financial circumstances, there is an increased risk that expenditures may exceed available resources.

Recommendation: The District should enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts as required by State law and rules, and Board policy.

Finding No. 11: Information Technology – Written Policies and Procedures

Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

As similarly noted in previous audits of the District, most recently in our report No. 2010-166, the District lacked approved written policies and procedures for the following IT functions:

- Changing or deleting vendor supplied identification codes (IDs) and passwords upon installation.
- Addressing the provision of least privilege for service and application user accounts.
- Creating, verifying use of, maintaining, changing, and reviewing user IDs, and associated access privileges.
- Prohibiting sharing of IDs, including system administrator IDs.
- Defining responsibilities, access privileges, and activities for network and security administrators.
- Addressing change, communication, and storage of administrative passwords.
- Prohibiting end-users from maintaining administrator rights on their workstations.
- Administering security devices (such as firewalls and routers).
- Resetting user passwords, including positive identification of the user.
- Determining compliance with passwords.
- Governing the proper storage, handling, transmission, and format of sensitive and confidential data or information.
- Reporting suspected, and responding to actual, security incidents.

Although the District had drafted policies and procedures to address some of the issues mentioned above, these policies and procedures had not been approved and fully implemented as of January 2011. Without written approved policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

Recommendation: The District should continue its efforts to establish approved written policies and procedures to document management's expectations for the IT functions described above.

Finding No. 12: Information Technology – Disaster Recovery

Disaster recovery planning is an element of IT controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations. The success and effectiveness of a disaster recovery plan requires elements such as alternate site processing arrangements and testing.

As similarly noted in previous audits of the District, most recently in our report No. 2010-166, the District's disaster recovery provisions for its IT resources needed improvement to ensure timely recovery in the event of a disaster. The District entered into an agreement with International Business Machines Corporation (IBM) whereby IBM agreed to

provide, in the event of any unplanned interruption of critical business and information processing beyond the District's control, equipment and remote service and support via telephone to a location chosen by the District or to an IBM recovery site. We noted that the District had not developed a comprehensive disaster recovery plan that assigned the responsibilities to carry out disaster recovery activities to particular employees and designated an alternate processing site. Absent established procedures that assign responsibilities for minimizing the impact of a disaster on the District's IT resources and without a planned alternate processing site, the risk is increased that the District will not be able to timely restore IT operations in the event of a disaster.

Recommendation: The District should develop a comprehensive IT disaster recovery plan that includes provisions for the assignment of personnel responsibilities and an alternate processing site in the event of a disaster.

Finding No. 13: Information Technology – Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in previous audits of the District, most recently in our report No. 2010-166, our audit disclosed certain security controls related to logging, monitoring, and review of system activity that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to logging, monitoring, and review of system activity, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to logging, monitoring, and review of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA) and Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Material Noncompliance and Material Weakness – Both Programs
Questioned Costs: $235,734.66 (CFDA No. 84.010); $350,813.19 (CFDA No. 84.389 - ARRA); and $90,038.99 (CFDA No. 84.367)

Matching, Level of Effort, Earmarking – Supplement Not Supplant. Title 20, Sections 6321(b) and 6623(b), United States Code, provide that Title I and Improving Teacher Quality programs, respectively, must use program funds only to supplement, and not supplant, the funds that would be available in the absence of these program funds. In addition, the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* provides that it is presumed supplanting has occurred if the District has used Federal funds to provide services that the District provided with non-Federal funds in the prior year. Our review of District records disclosed instances of noncompliance with the supplement not supplant requirements for the Title I and Improving Teacher Quality (ITQ) programs, as follows.

- **Title I Program**. There were 267 employees whose salaries and related benefits were charged in whole or in part to the Title I program during the 2009-10 fiscal year. Our tests of Title I program expenditures for 24 of these employees disclosed that the salaries and related benefits of 20 employees (including teachers, paraprofessionals, and reading and math coaches), totaling $586,547.85, were charged to other funding sources for the 2008-09 fiscal year. During that fiscal year, the salaries and related benefits for 18 of these 20 employees were charged to the General Fund, and 2 were charged, in part, to the Title I program. For the 2 employees with charges to the Title I program, the percentages charged to the program increased from the 2008-09 to 2009-10 fiscal years from 2 percent to 93 percent, and 46 percent to 97 percent, respectively. As a result, it appears that salaries and benefits, totaling $586,547.85, were supplanted.
- **Improving Teacher Quality Program**. There were seven employees whose salaries and benefits were charged in whole or in part to the ITQ program during the 2009-10 fiscal year, and additional employees that received in-service training salary payments from this program. Our review of salaries and benefits for these seven employees disclosed that a substantial portion of the salaries and related benefits of a teacher, a reading coach, and the former director of personnel and staff development were charged to other funding sources for the 2008-09 fiscal year. For these three employees, the percentages of the salaries and benefits charged to the ITQ program increased from the 2008-09 and 2009-10 fiscal years from 49 percent to 99 percent, 48 percent to 96 percent, and 42 percent to 96 percent, respectively. District personnel eventually provided evidence that the above employees devoted 100 percent of their work effort to the ITQ program for the 2009-10 fiscal year. However, based on the comparisons above, it appears that a portion of salaries and benefits paid to these employees (i.e., proportionate to $90,038.99 of the $173,694.35 total salaries and benefits charged for the 2009-10 fiscal year) were supplanted.

In response to our inquiry, District personnel indicated that the above-noted funding changes for the Title I and ITQ programs were necessitated by a decline in General Fund revenues, and these positions would have been eliminated in the absence of Federal funds. However, District records did not evidence an increase in the level of services provided by the Title I and ITQ program employees from the 2008-09 to the 2009-10 fiscal year. As such, to the extent that the amounts charged to the Title I and ITQ programs for these employees in the 2009-10 fiscal year exceeded the amounts charged in the 2008-09 fiscal year, salaries and benefits for these employees totaling $676,586.84 ($586,547.85 for Title I and $90,038.99 for ITQ) represent questioned costs.

Recommendation: The District should enhance procedures to ensure that Federal program funds are used only to supplement and not supplant District operating funds. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $676,586.84, or restore applicable amounts to the Title I and ITQ programs.

District Contact Person: Rose Raynak, Director of Federal Programs

Follow-up to Management's Response:

The District's response indicates that the costs should not be questioned based on available documentation, and that all such documentation was made available to audit staff. However, it was not evident of record that the District used these Federal moneys to supplement, and not supplant, funds that would be available in the absence of the Federal funds.

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Noncompliance and Significant Deficiency (CFDA No. 84.010); Material Noncompliance and Material Weakness (CFDA No. 84.367)
Questioned Costs: $138,756.04 (CFDA No. 84.010) and $86,308.35 (CFDA No. 84.367)

Allowable Costs/Cost Principles. Section 1114(a) of the Elementary and Secondary Education Act (ESEA), as clarified in guidance provided by the United States Department of Education, dated February 2008, provides that Title I program moneys must be used to address the educational needs of a school identified by the needs assessment and articulated in the comprehensive plan. ESEA further provides that these moneys may not be used for noneducational activities, such as building maintenance and repairs, landscaping, and custodial services. ESEA Section 2123(a) provides, in part, that ITQ funds must be used for developing and implementing processes to effectively recruit and retain highly qualified teachers, including specialists in core academic subjects, principals, and pupil services personnel (e.g., guidance counselors).

OMB *Circular A-87*, Attachment A, Section C.1., provides, in part, that costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards; consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities; adequately documented; and must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award. OMB *Circular A-87* also provides 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. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of certification.

Title I Program. Title I expenditures during the 2009-10 fiscal year totaled approximately $3.3 million. To determine the propriety of these expenditures, we tested 19 general expenditures totaling $256,199.80, and salaries and benefits totaling $249,020.32 paid to seven employees, and noted the following:

- As similarly noted in previous audit reports, most recently in our report No. 2010-166, certain salary and benefit amounts were incorrectly charged to the Title I schoolwide program. Three computer technicians maintained computer equipment across the District, and their salaries and benefits were funded at 25, 29, and 81 percent, respectively, from the Title I program. The District's response, dated September 7, 2010, to the Florida Department of Education's determination letter, dated April 20, 2010, relating to similar citations in our previous reports indicated that the questioned services included maintenance of computer equipment that was used for educational services and was therefore an allowable cost to the Title I program. However, these services, which the District could have provided without Title I funds, appear to be noneducational in nature, contrary to the above-cited Federal regulations. Accordingly, the computer technicians' salaries and benefits and the associated indirect costs funded by the Title I program, totaling $45,627.89, represent questioned costs subject to disallowance by the grantor.
- As similarly noted in our report No. 2010-166, the District used Title I funds to purchase antiviral software and operating system licenses totaling $44,075.90. The District's response, dated September 7, 2010, to the Florida Department of Education's determination letter, dated April 20, 2010, relating to similar citations in our previous reports indicated that the goods and services purchased included the maintenance and

protection of computer equipment used for educational services and was therefore an allowable cost to the Title I program. However, these items appear to be noneducational in nature, contrary to the above-cited Federal regulations. As noted in Question B-7 of the U.S. Department of Education's Title I use of funds guidance dated September 2, 2009, a local educational agency (i.e., District School Board) may not use Title I funds to implement general District-wide activities that benefit all schools or all students in general, absent express statutory authority to do so. These items, which the District could have provided without Title I funds, appear to be noneducational and non-supplemental in nature, contrary to the above-cited Federal regulations and guidance received from the Title I Program Office of the United States Education Department. Therefore, these charges, totaling $44,075.90, represent questioned costs subject to disallowance by the grantor.

- To enhance the instruction of Title I teachers, the District made purchases, totaling $76,604.50, from one company for instructional materials. The District determined that the company was the only supplier of these materials, and the company required prepayment for purchases exceeding $10,000. Consequently, the District paid the total amount to the company on July 8, 2010, prior to receipt of the resources on August 19, 2010, and contrary to good business practice. While District records supporting this purchase ultimately evidenced receipt of the instructional materials, prepayments leave little recourse to the District should a dispute arise with the vendor.
- The Title I program funded 92 percent of the salary and benefits of the AmeriCorps program director. Since AmeriCorps activities are typically for recruiting, training, and supervising AmeriCorp members and related costs, which are not standard K-12 schoolwide plan activities, that program should be considered a separate cost objective from the Title I program, and these salary and benefit charges would not be considered necessary and reasonable costs of the Title I program. Additionally, upon further inquiry, we determined that the District reported the salary and benefit charges for this employee as part of the matching requirement for the AmeriCorps grant that ended on July 31, 2010. As such, funding the director's salary and benefits from the Title I program appears contrary to the *Circular A-87*. Consequently, the AmeriCorps director's salary and benefits and the associated indirect costs funded by the Title I program, totaling $49,052.25, represent questioned costs subject to disallowance by the grantor.
- The Title I program was charged $37,277.04 in salaries and benefits for the District's parent services coordinator who devoted 50 percent of her time to the program during the 2009-10 fiscal year. However, District records did not initially evidence monthly personnel activity reports or equivalent documentation to support these costs. In response to our inquiry, the employee completed the monthly personnel activity reports, and the applicable supervisor certified the forms.

Improving Teacher Quality Program. ITQ expenditures during the 2009-10 fiscal year totaled $491,235.87, and of this amount, we tested 18 general expenditures totaling $54,317.20, and salaries and benefits totaling $327,449.22 paid to seven employees. As similarly noted in our report No. 2010-166, we noted the following:

- One payment of $4,872 was for two Apple iMac desktop computers and related equipment for home use by the director of personnel and staff development and the assistant superintendent for academic services. As of July 2010, the job classifications of these employees had changed to principal and director of instructional media and technology and management information services/information technology services, respectively. As of December 2010, these employees confirmed that they still maintained possession of the equipment at their homes and used it for the ITQ program pursuant to grant directives, although there was no mention of home use of the computers in the grant documents. Further, the correlation of the job responsibilities of these personnel to the ITQ program objectives was not readily apparent. Subsequent to our inquiry, in December 2010, the District transferred one of these computers to the Gadsden Elementary Magnet School, and we observed that it was being used for ITQ purposes. In addition, District records did not evidence that the District used the other computer and related equipment for program purposes, resulting in $2,436 of questioned costs, subject to disallowance by the grantor.
- One general expenditure item included payments for meals (breakfast and lunch) totaling $5,256 for employees attending a two-day administrative leadership conference held at the Florida State University Center Club, which is less than 30 miles from the District office and did not require overnight travel. Although the negotiated price of the food was based on 60 persons, District personnel provided attendance

records documenting that only 37 employees actually attended. Based on the number of employees attending the conference and related meal costs, these costs appeared excessive and unallowable program expenditures. In response to our inquiries, District personnel indicated United States Office of Management and Budget *Circular A-87* provides that costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable including costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. In addition, District personnel indicated that they were unaware of any Federal provisions that prohibit payments for meals at meetings and conferences. However, because these food costs were excessive (approximately $35 per meal for each of the four meals provided to the employees in attendance) and did not appear necessary to meet the program objectives, these costs totaling $5,256 represent questioned costs, subject to disallowance by the grantor.

- One payment totaling $3,675.75 related to training certain clerical personnel such as receptionists, office managers, secretaries, and assistant secretaries. While it would be a reasonable cost of the ITQ program to provide training to a teacher group that included some clerical personnel, as long as there was no incremental cost for attendance of the clerical personnel, District records did not evidence that the primary purpose of the training was for eligible ITQ training services. As such, the training did not meet the intent of the ITQ program, resulting in $3,675.75 of questioned costs subject to disallowance by the grantor.
- We requested and received semiannual certifications for seven employees charged to the ITQ program, including the former director of personnel and staff development (director). The director's semiannual certifications indicated that the employee worked solely on the ITQ program during the 2009-10 fiscal year; however, it was not readily apparent, based on the Board-approved job description for the director, how the director's duties could have related solely to the ITQ program. For example, the director's duties included planning, organizing, and implementing training activities and programs for all District initiatives, and establishing goals and objectives for training programs and projects for Districtwide initiatives; however, these duties relate to all District personnel, not only instructional personnel. As such, the director's salary and benefits, totaling $74,940.60, represent questioned costs subject to disallowance by the grantor. This questioned cost amount is also included in the questioned costs of Federal Awards Finding No. 1.

Recommendation: The District should enhance its procedures to ensure that expenditures are only for allowable grant purposes, and payroll charges are properly documented and supported. In addition, the District should document the allowability of the questioned costs, totaling $225,064.39, to the grantor (Florida Department of Education) or restore applicable amounts to the Title I and ITQ programs.

District Contact Person: Rose Raynak, Director of Federal Programs

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $27,040

Allowable Costs/Cost Principles. Title 34, Section 200.45, Code of Federal Regulations, provides that, for those schools identified as schools in need of improvement pursuant to the No Child Left Behind Act of 2001, for a second consecutive year, the District must arrange for eligible students to receive supplemental educational services (SES) from a State-approved provider. During the 2009-10 fiscal year, the District paid 10 vendors a total of $447,517 for Title I program SES, and we tested 26 payments to all 10 vendors, totaling $226,699.60, to determine whether students receiving SES were eligible, the vendor was authorized by the Florida Department of Education (FDOE), and hours charged were adequately supported by documentation.

Our tests disclosed that the vendors were authorized by FDOE; however, student attendance documentation could be enhanced. Three vendors provided invoices that listed students enrolled in the SES classes; however, District records did not evidence student or parent initials or signatures to substantiate receipt of the services. Subsequent to our inquiry, the District obtained from two of the three vendors either progress reports or sign in/out sheets with parent signatures or initials to document attendance. One vendor provided monthly progress reports signed by parents documenting student attendance for the time period covered by the voucher packages tested for this vendor, totaling $2,814.60. A second vendor provided sign in/out sheets with parent initials or signatures that documented attendance for $77,275 of $79,805 paid to this vendor, resulting in $2,530 in questioned costs. The third vendor provided student progress reports, but none of these were signed or initialed by the student, parent, or District employee, resulting in $24,510 of questioned costs, the total paid to this vendor for the 2009-10 fiscal year. District personnel responsible for overseeing SES provider services and approving payments to the providers were new to these responsibilities and were initially unaware of the need for adequate attendance documentation.

When Federal charges are not properly monitored, the risk increases that payments may be made for services not performed in accordance with grant terms and District intentions or personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that expenditures are properly monitored and services are received prior to payment. The District should also document the allowability of the questioned costs, totaling $27,040, to the grantor (Florida Department of Education) or restore this amount to the Title I program.

District Contact Person: Rose Raynak, Director of Federal Programs

Federal Awards Finding No. 4:
Federal Agency: Corporation for National and Community Service
Pass-Through Entity: Tallahassee Community College
Program: AmeriCorps (CFDA No. 94.006)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Matching, Level of Effort, Earmarking - Matching. Title 45, Section 74.23, Code of Federal Regulations (CFR), provides, in part, that costs and contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of the grantees and subgrantees. Further, OMB *Circular A-87* provides that 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.

The District received an AmeriCorps award that ended on July 31, 2009, from Tallahassee Community College, fiscal agent for the Commission on Volunteerism and Community Service. Pursuant to Title 45, Section 2521.60, CFR, the approved grant specified a required match of 36 percent of overall program costs, requiring a grantee match of approximately $153,056. According to the approved grant application, the matching contributions would include such items as donated space, salaries and benefits, and member living allowances and support costs.

The District did not have adequate procedures for monitoring its compliance with the program's matching requirements during the fiscal year. District records supporting the District's matching contributions included correspondence such as time and effort certifications for personnel salaries, expenditure allocation reports from the accounting records, and facility use calculations for the use of donated classroom space; however, our initial review disclosed that District records did not always adequately support matching amounts claimed. A portion of the salaries

and benefits claimed, totaling $14,772.22, were paid by other Federal awards, yet District records did not evidence a waiver from the other Federal agencies authorizing use of these charges as matching contributions. In addition, the District developed a reasonable valuation method to determine the value of donated space, consistent with Federal regulations; however, the donated space as calculated using the valuation method did not support the matching amount claimed. Consequently, based on District records initially provided for our review, matching contributions supported by District records totaled $127,845, or $25,211 less than the required match. Subsequent to delivery of our preliminary and tentative findings, District personnel provided additional documentation evidencing the allowability of the matching costs claimed. However, without adequate monitoring procedures, there is an increased risk of noncompliance with matching requirements, which could result in questioned costs subject to disallowance by the grantor agency.

Recommendation: The District should enhance procedures to ensure that Federal matching requirements are met and properly supported.

District Contact Person: Rose Raynak, Director of Federal Programs

Federal Awards Finding No. 5:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); and Improving Teacher Quality State Grants (CFDA No. 84.367)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $31,043.91 (CFDA No. 84.010)

Special Tests and Provisions – Private School Participation. Pursuant to Section 9501 of the Elementary and Secondary Education Act (ESEA), a local educational agency grantee is required to engage in timely and meaningful consultation with private school officials during the design and development of specified programs and to make such educational services or other benefits available to private school students and educational personnel. Section 9501 of the ESEA further provides that consultation with private school officials shall include such issues as how the children's needs will be identified; what services will be offered; how, where, and by whom the services will be provided; how the services will be assessed and how the results of the assessment will be used to improve those services; the size and scope of services to be provided; as well as other decisions about delivery of services.

During the 2009-10 fiscal year, the District notified, by written communication, the six private schools in the District regarding possible participation in various Federal programs; however, enhancements could be made in the information provided to these schools, as discussed below:

- The District's written communication to the private schools did not disclose ARRA programs available for private school participation during the 2009-10 fiscal year. Guidance issued by the United States Department of Education suggests that school districts should send another invitation to participate in Title I services, and provide the opportunity for consultation, regarding ARRA funds to private schools that decline services in the initial notification of Federal programs availability, assuming the initial notification did not include such notification of ARRA funding availability. Consequently, Title I – ARRA funds were not spent to provide any services to private schools during the 2009-10 fiscal year.
- Two private schools, Tallavana Christian School and Metropolitan Christian Academy of the Arts, elected to participate in Title I services; however, the District provided no Title I services to these schools during the 2009-10 regular school year. Discussions with private school officials disclosed that due to a lack of timely correspondence and planning by District officials, a short summer school program funded with Title I, Part A funds was the only realistic option for the private schools to receive any of these services. Due to the

District's untimely notification of the planned services, the private schools indicated that many of its eligible students were unable to participate because the parents of those students had already made other plans. Additionally, it appears that the nature and level of services provided to these two private schools during the summer were not equitable to those provided to students within the public school system during the 2009-10 fiscal year. For example, none of the funds allocated for private school parental involvement or professional development were spent during the 2009-10 fiscal year. District personnel indicated that, because the District did not offer the instructional services to private schools during the regular school year, there was no opportunity for parents and teachers of eligible private school students to receive such services. Discussions with private school officials disclosed that they were unsatisfied with the services that were offered and provided, they never preferred that the private schools receive Title I services only during summer school, and the District had not provided notification that the private schools had a large unspent allocation prior to the period of availability expiring. Thus, it appears that the unspent allocation for these two private schools, totaling $31,043.91, represents questioned costs.

- The two private schools noted above also elected to participate in the ITQ program, and the District notified the private schools that their teachers could participate in professional development opportunities when ITQ program funds were made available to District public school teachers. However, District records did not evidence that the private schools were notified of the time and place of professional development opportunities once planned by the District, and District personnel indicated that no private school personnel attended any professional development provided by the District during the 2009-10 fiscal year.

Without annually notifying private school officials of available Federal funding and working with private school officials to plan for the effective provision of services, there is a possibility that the views of private school officials regarding participation in Federal programs may change or new officials may desire their schools to participate, and students attending those schools may not receive services from Federal grants received by the District.

Recommendation: The District should continue its efforts to ensure that private schools are provided the opportunity to participate in the Federally-funded programs. Further, the District should document the allowability of the questioned costs, totaling $31,043.91, to the grantor (Florida Department of Education) or restore this amount to the program.

Federal Awards Finding No. 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: State Fiscal Stabilization Funds (CFDA Nos. 84.394 and 84.397) and Title I Grants to Local Educational Agencies (CFDA 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Subrecipient Monitoring. The District had not established adequate procedures over Federal funds passed through to Crossroads Academy Charter School (Charter School) to demonstrate compliance with the monitoring requirements of United States Office of Management and Budget (OMB) *Circular A-133*, paragraph 400(d). Pursuant to this *Circular*, a pass-through entity is responsible, in part, for: (1) identifying to the subrecipients the Federal award information; (2) advising subrecipients of requirements imposed on them by Federal laws, regulations, and provisions of contract or grant agreements; (3) monitoring subrecipients' activities to provide reasonable assurance that subrecipients administer Federal awards in compliance with Federal regulations; and (4) ensuring that subrecipients expending $500,000 or more in Federal awards during the fiscal year have the required audits performed and that appropriate corrective action is taken on any audit findings.

In addition, the pass-through entity is responsible for implementing procedures to timely track the Federal funds passed through to, and expended by, each subrecipient to determine the level of accountability required; adequately

considering factors such as size of awards, percentage of the total program's funds awarded to the subrecipients, and the complexity of the compliance requirements; and properly documenting the process. Subrecipient monitoring normally occurs throughout the year and may include reviewing financial and performance reports submitted by the subrecipient, performing site visits to review financial and programmatic records and observe operations, and regular contacts and appropriate inquiries with the subrecipients concerning program activities.

During the 2009-10 fiscal year, the District passed through the State Fiscal Stabilization and Title I Grants to Local Educational Agencies programs funds totaling $89,105 and $55,591, respectively, to the Charter School, and District personnel indicated that subrecipient monitoring procedures, such as Board review and approval of the Charter School's monthly financial reports, were performed on a monthly basis. The Charter School's monthly financial reports consisted of a cash basis balance sheet and profit and loss statement; however, the reports were not in sufficient detail to evidence the specific use of State Fiscal Stabilization and Title I program funds and evidence satisfaction of the applicable compliance requirements for these grants. In addition, District records did not evidence any further monitoring procedures, such as site visits to review financial and programmatic records and observe operations, and regular contacts and appropriate inquiries with the Charter School concerning program activities. Without documentation to evidence that subrecipient monitoring procedures are properly performed, the risk increases that subrecipients may use Federal funds for unauthorized purposes and not comply with grant provisions.

Recommendation: The District should enhance its procedures for monitoring Federal moneys passed through to subrecipients to ensure compliance with applicable OMB *Circular A-133* requirements.

District Contact Person: Rose Raynak, Director of Federal Programs

Follow-up to Management's Response:

The District's response indicates that site visits are not required, and that the District monitors the Charter School by obtaining a Federal Single Audit. While review of the Federal Single Audit report is one component of subrecipient monitoring, such review would not satisfy all of the District's subrecipient monitoring responsibilities. In addition to the review, performing the required site visits to review financial and programmatic records and observe operations, and appropriate inquiries with the Charter School concerning program activities, would decrease the risk that the Charter School may use Federal funds for unauthorized purposes.

Federal Awards Finding No. 7:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Special Tests and Provisions - Comparability. ESEA Section 1120A(c)(1)(A) provides that the District may receive Title I funds only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the District provided in schools not receiving Title I funds. Section 1120A(c)(3) requires the District to develop procedures for compliance with this subsection. The Florida Department of Education (FDOE) requires that the District conduct comparability calculations by the close of the State processing period for full-time equivalent (FTE) student data, which for the 2009-10 fiscal year occurred on November 13, 2009, and report the results online to FDOE.

Our review of the District's compliance with comparability requirements disclosed that schools were comparable; however, the submission of the information was untimely since FDOE noted receipt of the initial comparability

report on February 26, 2010, more than three months after the due date. Additionally, on April 1, 2010, FDOE informed the District to complete the comparability reporting process by submitting revised written procedures and source documentation to support the budget and FTE amounts included in the report; however, FDOE personnel informed us that the District had not submitted the revised written procedures or source documentation as of November 4, 2010. Based on our discussions with FDOE personnel in January 2011, the District recently provided additional documentation to FDOE, although FDOE had not reviewed the documentation for adequacy. When Federal reporting requirements are not met in a timely manner, the risk increases that the associated compliance requirement may not be met.

Recommendation: The District should enhance its procedures to ensure the timely completion of comparability reporting in accordance with Federal and FDOE requirements.

District Contact Person: Rose Raynak, Director of Federal Programs

Federal Awards Finding No. 8:
Federal Agency: United States Department of Education and United States Department of Health and Human Services
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Improving Teacher Quality State Grants (CFDA No. 84.367); and Head Start (CFDA No. 93.600)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Equipment Management. Federal regulations (e.g., Title 34, Section 80.32, Code of Federal Regulations) require the District to maintain adequate records for equipment purchased with Federal funds, and generally limit equipment use to the program for which it was acquired. The District's furniture, fixtures, and equipment (equipment), totaled approximately $7.4 million at June 30, 2010, and subsidiary records for approximately $1.5 million of the equipment identified essential information, such as the governmental fund and program that funded the property acquisitions. However, for property acquired prior to July 2008, the subsidiary records did not identify the governmental fund that paid for equipment totaling approximately $5.4 million. In addition, for property acquired prior to July 2008, totaling approximately $450,000, the subsidiary records identified that the property was acquired using Federal funds, but the subsidiary records did not identify the particular Federal program that funded the acquisitions. The lack of complete and accurate records for all equipment represents a control weakness in accountability for Federal funding and related property, and could impact the District's administration of Federally-funded programs. A similar finding was noted in our report No. 2010-166.

Recommendation: The District should establish procedures necessary to provide adequate controls over the management of furniture, fixtures, and equipment used in Federal programs.

District Contact Person: Rose Raynak, Director of Federal Programs

Follow-up to Management's Response:

The District's response indicates that the finding should not be classified as "Noncompliance and Significant Deficiency," and requested that we reconsider the likelihood that this condition would have a material adverse impact on the administration of Federally-funded programs. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material

weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Accordingly, we believe the noncompliance and significant deficiency in controls over Federal equipment management finding is properly classified to merit Board attention.

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. 2010-166.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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
2008-126 (1) 2009-188 (2) 2010-166 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions - Highly Qualified Teachers	Enhancements were needed in District procedures to ensure that all teachers hired to work in the District's Title I program are highly qualified, resulting in questioned costs, totaling $433,692.12 and $75,573.75 for the 2006-07 and the 2008-09 fiscal years, respectively.	Corrected.	The Florida Department of Education did not sustain the finding of questioned costs totaling $433,692.12 for the 2006-07 fiscal year and the $75,573.75 for the 2008-09 fiscal year.
2008-126 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Matching, Level of Effort, and Earmarking	District General Fund per student expenditures at two of the District's schoolwide programs decreased in the amount of $245,183.14. The District should document to FDOE the allowability of questioned costs, or these moneys should be restored to the Title I program.	Corrected.	The Florida Department of Education did not sustain the finding of questioned costs, totaling $245,183.14 for the 2006-07 fiscal year.
2008-126 (9)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Special Tests and Provisions	District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to the school in rank order based upon the number of children from low income families.	Corrected.	The Florida Department of Education reviewed the material provided and believes that actions identified in the Program System Improvements Plan for the 2009-2010 monitoring visit demonstrate adequate internal controls and procedures.
2009-188 (1) 2010-166 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Eligibility	District procedures should be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and expended at, schools with the greatest needs, as required, and that the accounting records be maintained to evidence this. Additionally, the District should document to its grantor (FDOE) how Title I schoolwide program resources were used at the schools with the greatest needs, or restore $323,365.74 and $192,835.50 for the 2007-08 and 2008-09 fiscal years, respectively to the Title I program.	Corrected.	The Florida Department of Education (FDOE) reviewed the material provided and believed that actions identified in the Program System Improvements Plan for the 2009-2010 monitoring visit demonstrated adequate internal controls and procedures. FDOE allowed the District to absorb all questioned costs from rollforward Title I program moneys, except for $49,483, which the District restored during the 2010-11 fiscal year.
2009-188 (3) 2010-166 (5)	Title I Grants to Local Educational Agencies (CFDA No. 84.010; Special Education - Grants to States (CFDA No. 84.027) / Allowable Costs/Cost Principles - Compensation of Personnel Services	Required semiannual certifications were not always prepared for employees who worked solely on a single Federal program and monthly personnel activity reports for employees who worked on multiple activities or cost objectives. Additionally, the District should document the allowability of the questioned costs, totaling $77,596, and $52,388.05 for the 2007-08 and 2008-09 fiscal years, respectively, to the grantor (FDOE), or restore the costs to the Title I and Special Education programs.	Partially corrected.	The Florida Department of Education reviewed the material provided and believes that appropriate corrective measures will be taken during the 2010-11 fiscal year. The Florida Department of Education did not sustain the finding of questioned costs totaling $71,234 for the 2007-08 fiscal year and $52,388.05 for the 2008-09 fiscal year. The District restored $6,362 to the Special Education program during the 2010-11 fiscal year. A similar finding was noted during the 2009-10 fiscal year report.

GADSDEN COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

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
2009-188 (4)	Title I Grants to Local Educational Agencies (CFDA No. 84.010; Fund for the Improvement of Education (CFDA No. 84.215) / Special Tests and Provisions - Private	The District should continue its efforts to ensure that private schools are annually provided the opportunity to participate in the Federally-funded programs. Additionally, Title I program funds were paid to a private school contractor, who was not highly qualified, resulting in questioned costs of $13,679. The District should document the allowability of the questioned costs to the grantor (FDOE) or restore the costs to the program.	Corrected.	The Florida Department of Education reviewed the material provided and believes that appropriate corrective measures were taken. Questioned costs were restored to the program in the 2010-11 fiscal year.
2009-188 (6) 2010-166 (6)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027 and 84.173); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Fund for the Improvement of Education (CFDA No. 84.215, Improving Teacher Quality (CFDA No. 84.367); and Head Start (CFDA No. 93.600) / Equipment Management	District procedures should be implemented to provide adequate control over capital assets used in Federal programs.	Partially corrected.	The District continues to improve its abilities to account for the capital assets used in Federal programs through the PAEC fixed asset inventory software. The District continues to provide staff development for administrators and other leaders regarding the necessary accounting for and care of capital assets.
2010-166 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Special Education – Grants to States (CFDA No. 84.027) / Allowable Costs/Cost Principles	The District did not document the allowability of Federal costs for a electronic parent notification system and costs for antiviral software and servers, resulting in Title I and Special Education program questioned costs of $29,017.84 and $32,242.25, respectively.	Partially corrected.	The Florida Department of Education reviewed the material provided and did not sustain the finding of questioned costs totaling $22,870.84 for the Title I program. The remaining questioned costs of $6,147 were restored to the Title I program. FDOE sustained the finding of questioned costs totaling $32,242.25 for the Special Education program; and these costs were restored to the Special Education program during the 2010-11 fiscal year. A similar finding was noted in the 2009-10 fiscal year report.
2010-166 (4)	Improving Teacher Quality State Grants (CFDA No. 84.367) / Allowable Costs/Cost Principles	Contrary to the intent and budget of the Improving Teacher Quality program, the District paid for a health services coordinator from program funds, resulting in questioned costs of $45,026.55.	Corrected.	The Florida Department of Education reviewed the material provided and sustained the finding. Questioned costs totaling $45,026.55 were restored to the program during the 2010-11 fiscal year.

EXHIBIT A

MANAGEMENT'S RESPONSE

The School Board of Gadsden County

"Building A Brighter Future"

REGINALD C. JAMES
SUPERINTENDENT OF SCHOOLS

35 MARTIN LUTHER KING, JR. BLVD
QUINCY, FLORIDA 32351
TEL: (850) 627-9651
FAX: (850) 627-2760
http://www.gcps.k12.fl.us

March 18, 2011

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin:

Enclosed are the District's responses to the Preliminary and Tentative Audit Findings for the fiscal year ended June 30, 2010.

Please contact me if you have any questions or need additional information.

Sincerely,

Reginald C. James
Superintendent of Schools

RCJ:bw

ERIC F. HINSON
DISTRICT NO. 1
HAVANA, FL 32333

JUDGE B. HELMS, JR.
DISTRICT NO. 2
QUINCY, FL 32351

ISAAC SIMMONS, JR.
DISTRICT NO. 3
CHATTAHOOCHEE, FL 32324
GREENSBORO, FL 32330

CHARLIE D. FROST
DISTRICT NO. 4
GRETNA, FL 32332
QUINCY, FL 32352

ROGER P. MILTON
DISTRICT NO. 5
QUINCY, FL 32353

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

RESPONSES TO PRELIMINARY AND TENTATIVE FINDINGS

Finding No. 1: Information Technology – Appropriateness of Access Privileges
The District has reviewed the appropriateness of the access privileges of employees and others on an ongoing basis and will timely remove any incompatible or unnecessary access privileges.

Finding No. 2: Financial Reporting
The District will enhance its procedures to ensure that information is properly reported on the financial statements, the notes thereto, and the Schedule of Expenditures of Federal Awards.

Finding No. 3: Capital Assets
The District will make the necessary corrections to the subsidiary records, and adjust the general ledger accounts to reflect the subsidiary totals. Then the District will amend its procedures as necessary to ensure the continued accuracy of its subsidiary records.

Finding No. 4: Ad Valorem Taxation
The District concurs with the finding and will restore the amounts questioned to the capital improvements fund.

Finding No. 5: Performance Assessments
The District will amend its performance assessment forms and procedures to show that student performance is weighted heavier than any other factor in its evaluation of instructional personnel. Further, timely performance assessments of subordinates will be a factor in the evaluations of supervisory personnel.

Finding No. 6: Compensation and Salary Schedules
The District School Board is aware that its current compensation policies and salary schedules are not in full compliance with Section 1012.22, Florida Statutes, and the Board will continue its efforts to secure labor union contracts that will facilitate the adoption of the recommended formal policies and procedures.

Finding No. 7: Adult General Education Courses
The District will enhance its supervisory review over the reporting of instructional contact hours for adult general education courses to FDOE, and advise the Florida Department of Education of the reporting errors both clerical and systemic.

Finding No. 8: Procurement
The District has enhanced controls to ensure that payments for consultant services are controlled with the parameters set by the District School Board.

Finding No. 9: Collection of Social Security Numbers
The District will continue its efforts to establish and enforce controls to bring the District into full compliance with Section 119.071(5)(a), Florida Statutes.

Page 1 of 5

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

RESPONSES TO PRELIMINARY AND TENTATIVE FINDINGS

Finding No. 10: Budgetary Controls
The District will enhance its budgetary procedures to ensure that expenditures are limited to budgeted amounts in accordance with Board policy and State law and rules.

Finding No. 11: Information Technology – Written Policies and Procedures
The District has written policies and procedures that were approved by the Gadsden County School Board on December 14, 2010. These policies are now fully implemented throughout the District. The policy numbers are: 8.71 (Information Technology Data and Computer Systems; Security Audits and Controls) and 8.72 (Information Technology Data and Computer Systems; System Passwords and Access).

Finding No. 12: Information Technology – Disaster Recovery
The District is currently seeking a vendor that will assist with the development of a comprehensive IT disaster recovery plan. The District anticipates completion of the plan by fall 2011.

Finding No. 13: Information Technology – Security Controls
The District has made efforts to improve its security controls by purchasing an upgrade to the current NOVELL system being used in the District. The network engineer has installed the necessary components of the software to ensure the security of the District's data.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

RESPONSES TO PRELIMINARY AND TENTATIVE FINDINGS

FEDERAL AWARDS FINDINGS

Federal Finding No. 1: Supplement not Supplant
The District disagrees that the costs should be questioned based on available documentation. The District will rebut the presumption of supplanting through documentation provided to the Florida Department of Education (FLDOE). All such documentation was available to the audit staff.

Specifically, the District will provide to the FLDOE documentation generated by its budget processes and associated grant applications that the personal services questioned would not have been provided with non-Federal funds had the federal funds not been available. For example, the District will provide documentation showing that the governing school board carefully considered the questioned changes in funding from the general fund to Federal sources as demonstrated by the fact that the positions were supplemental to the instructional process, that all the funding changes occurred at the beginning of the District's budget period or fiscal year, and that the positions were specifically identified in various federal grant applications that were subsequently approved by the FLDOE. Further, the District will show that it could not sustain the same level of staffing with state and local funds, because state and local revenues were expected to and did decline.

Federal Finding No. 2: Allowable Costs/Cost Principles

Title I Program. The District disagrees that the costs should be questioned based on the documentation provided for audit. The District will document the allowability of the questioned costs to FLDOE.

Improving Teacher Quality Program. The District disagrees that the costs should be questioned based on the documentation provided for audit. The District will document the allowability of the questioned costs to FLDOE.

With regard to the second bullet point under the Improving Teacher Quality Program, your calculation of $35 per meal for each of the four meals provided to the employees in attendance is misleading in that it assumes that all employees signed in and that there were no provisions made for presenters' meals. Further, there will always be legitimate reasons why some individuals, who planned to attend an event, will be unable to attend. The cost per meal, based on 60 persons, is $18.25 plus 20% gratuity, and in our opinion that is reasonable.

Federal Finding No. 3: Allowable Costs – Supplemental Educational Services
The District disagrees that the costs should be questioned based on the documentation provided for audit. The District will document the allowability of the questioned costs to FLDOE.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

RESPONSES TO PRELIMINARY AND TENTATIVE FINDINGS

Federal Finding No. 4: AmeriCorps Matching
The District has enhanced its procedures to ensure that Federal matching requirements are met and properly supported.

Federal Finding No. 5: Private School Participation
The District does not dispute the findings, and the District will continue its efforts to ensure that private schools are provided the opportunity to participate in the federally-funded programs. The District will document to the FLDOE that the questioned costs are not costs but unexpended budget balances, and many of the public schools in the District had significant unexpended budget balances. The total Title I unexpended budget that was recently made available to the District from the 2009-2010 fiscal year amounts to $1,639,041.

Federal Finding No. 6: Subrecipient Monitoring
The District monitored the Crossroad Academy Charter School and ensured that it obtained an audit for the Fiscal Year ended June 30, 2010, in accordance with Section 218.39, Florida Statutes and the requirements of Office of Management and Budget (OMB) Circular A-133. Such audit was conducted in accordance with generally accepted auditing standards, OMB Circular A-133, and Chapter 10.850, Rules of the Auditor General. The District reviewed the report of the independent auditor and noted that there were no federal findings in the Fiscal Year ended June 30, 2010, or in the prior fiscal year.

Chapter 400(d)(3) of the circular delineates the pass-through entity monitoring responsibilities as follows: "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." Please note that site visits are not required. We conclude that the independent auditor's performance of an OMB Circular A-133 compliant audit with no federal program findings is sufficient to ensure that Federal awards were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved as evidenced by the results of the Florida Comprehensive Assessment Test.

The District will provide the charter school with copies of the grant award notifications and related information from the FLDOE for those awards in which the charter school will share. The award notifications and related information contain sufficient information to satisfy the notification requirements of OMB Circular A-133.

Federal Finding No. 7: Comparability
The District has enhanced its comparability procedures as demonstrated by the fact that the comparability procedures and associated report for the fiscal year 2010-2011 were submitted prior to the deadline established by the FLDOE.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

RESPONSES TO PRELIMINARY AND TENTATIVE FINDINGS

Federal Finding No. 8: Equipment Management
The District does not contest the facts as presented; however, we do not believe that the finding should be classified as "Noncompliance and Significant Deficiency". The USDOE promulgates regulations on administration of equipment in CFR 34, Part 80.32. In CFR 34, Part 80.32, we note the following:

- Title to equipment vests in the District upon acquisition;
- When the equipment is no longer needed for the original project, it can be used to support any federal project with preference to the projects of the awarding agency;
- The only financial interest the Federal Government retains in the property occurs should the District declare an item of surplus that has a current market value in excess of $5,000. Such an occurrence is unlikely; and
- Subsection (d)(1) addresses property record requirements, and we do not see a requirement to record the particular federal program that funded the acquisitions.

The District has established procedures necessary to provide adequate controls over the management of furniture, fixtures, and equipment; however, we see no way to currently rectify control weaknesses occurring prior to 2008. Our records show there was federal participation in the acquisitions. Given the foregoing excerpts from the relevant federal regulations, please reconsider the likelihood that this condition would have a material adverse impact on the District's administration of federally-funded programs.

Page 5 of 5