REPORT NO. 2013-170
MARCH 2013

MONROE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	District No.
Robin Smith-Martin	1
Andy Griffiths, Vice Chair	2
Dr. R. Duncan Mathewson, III	3
John Dick, Chair	4
Ronald A. Martin	5

Dr. Jesus F. Jara, Interim Superintendent from July 1, to August 7, 2011,
Superintendent from August 8, 2011

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

The audit team leader was James A. Bell, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. 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.

MONROE COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

SIGNIFICANT DEFICIENCY

Finding No. 1: **Financial reporting procedures could be improved to ensure that transactions and note disclosures are properly reported on the financial statements.**

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

ADDITIONAL MATTERS

Finding No. 2: **The District's General Fund financial condition may be further reduced by payments of questioned costs and additional Board premium contributions for the District's health and workers' compensation self-insurance programs, resulting in significantly less resources for emergencies and unforeseen situations.**

Finding No. 3: **District procedures did not always ensure that minutes for meetings were appropriately maintained and timely approved, contrary to the Sunshine Law.**

Finding No. 4: **The District's required annual debt payment of $2,117,647 was made late.**

Finding No. 5: **The District initially reported $4,963,000 of unrestricted resources as restricted fund balance in a capital projects fund; however, the amounts had no externally imposed constraints on use and District records did not evidence the specific intended use of the funds.**

Finding No. 6: **The District's Workers' Compensation/General Liability Internal Service Fund unrestricted net asset balance declined $920,054 to a deficit balance of $1,901,332 at June 30, 2012.**

Finding No. 7: **District records did not always evidence use of ad valorem tax levy proceeds for authorized purposes, resulting in $8,552.48 of questioned costs.**

Finding No. 8: **The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.**

Finding No. 9: **A formal action plan needs to be established to adequately fund the property self-insurance program for wind damage.**

Finding No. 10: **Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented and approved, accurately recorded, and not in conflict with other employment.**

Finding No. 11: **The financial audit of a Board-approved direct-support organization (DSO) was not performed in accordance with *Government Auditing Standards*, contrary to Rules of the Auditor General. Although District personnel did not consider the organization to be a DSO, the Board had not rescinded its approval of the organization as a DSO, and the District provided the organization personal services, use of District facilities, and property at no cost, which is permissible only if the organization is a DSO.**

Finding No. 12: **The District needed to enhance controls over after school day care program fees.**

Finding No. 13: **Vehicle logs were not always complete, accurate, and reviewed and approved of record by supervisory personnel.**

Finding No. 14: Controls over the review and approval of construction contract change orders could be improved.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I Cluster, Twenty-First Century, Improving Teacher Quality, Race-to-the-Top, and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: The District used Title I School Improvement Grant funds for expenditures incurred outside the period of availability, resulting in $36,793.40 of questioned costs.

Federal Awards Finding No. 2: The District did not properly allocate Title I schoolwide program resources to schools in rank order, on the basis of the total number of children from low income families in each school, resulting in $18,475.34 of questioned costs.

Federal Awards Finding No. 3: Required documentation to support personnel charges were not always maintained, resulting in $14,382.37 of questioned costs to the Race-to-the-Top Program.

Federal Awards Finding No. 4: Control deficiencies were noted over payroll time records and employee work schedules for some District employees paid from Twenty-First Century Program funds, resulting in $938 of questioned costs.

Federal Awards Finding No. 5: The District's Schedule of Expenditures of Federal Awards excluded the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, a major Federal program, with expenditures of $359,056.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-170.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

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AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Monroe County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 18 percent of the assets and 23 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Monroe County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the District changed the funds it used to report American Recovery and Reinvestment Act debt service and capital projects financial information for the 2011-12 fiscal year. This affects the comparability of amounts reported for the 2011-12 fiscal year with amounts reported for the 2010-11 fiscal year.

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

- The District's total net assets increased by $4.9 million (or 2.2 percent).
- Total expenditures and other financing uses in all governmental funds exceeded revenues and other financing sources by $12.7 million. This occurred primarily because of certificates of participation spending for the construction of a new middle school.
- Capital assets, net of depreciation, increased by $6.3 million to $283.1 million. The contributing factor for the increase was additions to capital assets totaling $17.4 million, which include additions of $12.6 million to construction in progress and $4.8 million to other capital assets. Depreciation expense for the year totaled $9.2 million.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

The government-wide financial statements present the activities of the District in the following two categories:

- <u>Governmental activities</u> – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- <u>Component units</u> – The District presents six separate legal entities in this report. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Big Pine Elementary Academy, Inc.; Montessori Elementary Charter School, Inc.; Montessori Island Charter School Inc., d/b/a Treasure Village Montessori School; Sigsbee Charter School, Inc.; Ocean Studies Charter School, Inc.; and Key West Independent Education, Inc., d/b/a Key West Collegiate School, are reported separately from the District as aggregate discretely presented component units. Financial information for these component units is reported separately from the financial information presented for the District.

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

Fund Financial Statements

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

<u>**Governmental Funds:**</u> 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 – Federal Economic Stimulus Fund, Debt Service – Other Fund, Debt Service – ARRA Economic Stimulus Fund, Capital Projects – Local Capital Improvement Fund, Capital Projects – Other Fund, and Capital Projects – ARRA Economic Stimulus Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Statement of Net Assets

A summary statement of net assets, presented as Table 1, shows that the District's combined net assets increased 2.2 percent, or $4.9 million, to $227.3 million. Total assets reported were $343.8 million and total liabilities reported were $116.6 million. An increase in net assets is an indication that the District's financial health is improving. The analysis below focuses on the net assets of the governmental activities.

Table 1
Summary Statement of Net Assets
(In thousands)

	06-30-12	06-30-11	Increase (Decrease)
Current and Other Assets	$ 60,686	$ 72,464	$ (11,778)
Capital Assets	283,148	276,894	6,254
Total Assets	343,834	349,358	(5,524)
Long-Term Liabilities	108,201	120,557	(12,356)
Other Liabilities	8,373	6,444	1,929
Total Liabilities	116,574	127,001	(10,427)
Net Assets:			
Invested in Capital Assets - Net of Related Debt	200,927	195,923	5,004
Restricted	29,279	33,719	(4,440)
Unrestricted (Deficit)	(2,946)	(7,285)	4,339
Total Net Assets	$ 227,260	$ 222,357	$ 4,903

Total Assets. Total assets were $343.8 million and consisted of two components: current and other assets, and capital assets.

- Current and Other Assets - The largest component of current and other assets are cash and investments, which comprise $57.6 million, or 94.9 percent of the current assets of $60.7 million.
- Capital assets – As shown in Table 2, capital assets totaled $283.1 million, which represents an increase of $6.3 million from the prior fiscal year.

Table 2
Capital Assets, at Year-end
(net of depreciation, in thousands)

	6-30-12	6-30-11	Increase (Decrease)
Land	$ 6,535	$ 6,612	$ (77)
Construction in Progress	25,528	13,344	12,184
Buildings and Improvements	244,399	249,477	(5,078)
Furniture, Fixtures and Equipment	3,754	3,326	428
Motor Vehides	2,870	2,849	21
Property Under Capital Leases		1,034	(1,034)
Audio Visual Materials and Computer Software	62	252	(190)
Total	$ 283,148	$ 276,894	$ 6,254

Construction in progress increased by $12.2 million due to the construction of the new Horace O'Bryant Middle School. Additional information on the District's capital assets can be found in Notes 5 and 18 to the financial statements.

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

- Long-term liabilities totaled $108.2 million, of which $92.4 million (Table 3) relates to financing construction projects and the purchase of data processing equipment. The balance of $15.8 million includes $6.6 million for compensated absences, $3.8 million for other postemployment benefits payable, $4.2 million for estimated insurance claims payable, and $1.2 million for employee severance benefits payable.

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

	6-30-12	6-30-11	Increase (Decrease)
State School Bonds Payable	$ 755	$ 1,010	$ (255)
Revenue Bonds Payable	42,190	51,860	(9,670)
Obligations Under Capital Leases		86	(86)
Certificates of Participation Payable	49,427	51,307	(1,880)
Total	$ 92,372	$ 104,263	$ (11,891)

- The District's capital-related debt decreased by $11.9 million due to scheduled debt service payments.
- Current and other liabilities totaled $8.4 million and consisted primarily of payroll-related payables ($3.1 million), accounts payable ($4.4 million), and construction contracts retainage payable ($0.7 million).
- More detailed information about the District's long-term liabilities is presented in Notes 7 through 9, 15 through 17, 19, and 20 to the financial statements.

Net Assets. Net Assets are composed of three sections: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. As shown in Table 4, total net assets increased by $4.9 million.

Table 4
Net Assets
(in thousands)

	6-30-12	**6-30-11**	**Increase (Decrease)**
Invested in Capital Assets, Net	$ 200,927	$ 195,923	$ 5,004
Restricted Net Assets	29,279	33,719	(4,440)
Unrestricted Net Assets Deficit	(2,946)	(7,285)	4,339
Total	$ 227,260	$ 222,357	$ 4,903

Invested in Capital Assets, Net of Related Debt. This component of net assets consists of capital assets, net of depreciation, and reduced by the outstanding balances of bonds and certificates of participation that are attributable to the acquisition, construction, or improvement of these assets. These assets increased by $5 million, during the 2011-12 fiscal year.

Restricted Net Assets. Net assets are reported as restricted when constraints are placed on the assets either externally by grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets decreased during the 2011-12 fiscal year by $4.4 million. The majority of the decrease was from a $6.9 million decrease in funds available for capital projects and partially offset by a $2.5 million increase in debt service sinking fund requirements.

Unrestricted Net Assets. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, and totals a $2.9 million deficit at June 30, 2012, which is an increase of $4.3 million for the 2011-12 fiscal year.

Statement of Activities

A summary statement of activities, presented in Table 5, represents the revenues, expenses, and changes in net assets. Revenues totaled $112.1 million and expenses totaled $107.2 million, resulting in an increase in net assets of $4.9 million.

Table 5
Summary Statement of Activities
(in thousands)

	2011-12	2010-11	Increase (Decrease)
Program Revenues			
Charges for Services	$ 1,632	$ 1,891	$ (259)
Operating Grants and Contributions	2,139	2,543	(404)
Capital Grants and Contributions	450	846	(396)
General Revenues			
Property Taxes Levied for Operational Purposes	57,990	66,967	(8,977)
Property Taxes Levied for Capital Projects	9,442	7,819	1,623
Local Sales Taxes	13,441	11,286	2,155
Grants and Contributions - Not Restricted	25,298	25,667	(369)
Unrestricted Investment Earnings	370	265	105
Miscellaneous	1,290	1,124	166
Total Revenues	112,052	118,408	(6,356)
Functions/Program Expenses			
Instruction	52,496	62,785	(10,289)
Pupil Personnel Services	4,355	4,835	(480)
Instructional Media Services	760	1,082	(322)
Instruction and Curriculum Development Services	2,185	2,564	(379)
Instructional Staff Training	1,310	1,317	(7)
Instruction Related Technology	974	1,103	(129)
Board of Education	1,100	961	139
General Administration	861	926	(65)
School Administration	4,077	4,941	(864)
Facilities Acquisition and Construction	5,589	2,139	3,450
Fiscal Services	817	895	(78)
Food Services	3,266	3,247	19
Central Services	1,934	1,022	912
Pupil Transportation Services	5,498	3,917	1,581
Operation of Plant	6,008	7,153	(1,145)
Maintenance of Plant	2,150	2,979	(829)
Administrative Technology Services	362	389	(27)
Community Services	706	781	(75)
Unallocated Interest on Long-term Debt	4,332	2,837	1,495
Unallocated Depreciation Expense	8,371	6,110	2,261
Total Functions/Program Expenses	107,151	111,983	(4,832)
Increase (Decrease) in Net Assets	$ 4,901	$ 6,425	$ (1,524)

Revenues. Revenues totaled $112.1 million, which is a decrease of $6.3 million (5.4 percent) from the $118.4 million for the 2011-12 fiscal year. Property tax revenue for capital projects increased by $1.6 million due to an increase of 0.10 mills levied for local capital improvements. The effect of declining property values on the property tax revenue for operational purposes was offset by an increase in new taxable value (new construction, improvement, etc.). A 0.3585 mill decrease in the remaining nonvoted school tax levy resulted in an $8.9 million decrease in property tax revenue for operational purposes primarily due to the expiration of the 0.25 mill critical operating needs levy.

Expenses. Total expenses decreased by $4.8 million, or 4.3 percent from the $112.0 million expended for the 2010-11 fiscal year. The decrease in total expenses was due mainly to cost control measures to contain expenses due to declining revenue and lower Florida Retirement System (FRS) contribution requirements. Instruction expenses decreased by $10.3 million due mainly to American Recovery and Reinvestment Act (ARRA) programs that ended in the 2010-11 fiscal year and the FRS contribution decrease.

FUND FINANCIAL ANALYSIS

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

- Total assets, liabilities, revenues, or expenditures of that individual fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all funds, and
- Total assets, liabilities, revenues, or expenditures of that individual fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. The District had no enterprise funds during the 2011-12 fiscal year.
- The Florida Department of Education has directed that the Federal Economic Stimulus Funds be reported as a major funds.
- Management also has the discretion to present funds not meeting these criteria as major funds if it may be of public interest or to maintain consistency in financial reporting.
- The District reports eight major funds for the 2011-12 fiscal year:
    - General Fund
    - Special Revenue – Other Fund
    - Special Revenue – Federal Economic Stimulus Fund
    - Debt Service – Other Fund
    - Debt Service – ARRA Economic Stimulus Fund
    - Capital Projects – Local Capital Improvement Fund
    - Capital Projects – Other Fund
    - Capital Projects – ARRA Economic Stimulus Fund

Table 6
Summary Statement of Revenues, Expenditures, and Changes in Fund Balance
(in thousands)

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund	Debt Service - ARRA Economic Stimulus	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus	Other Governmental Funds	Total Governmental Funds
Total Revenues	$ 75,547	$ 7,026	$ 630	$ 12	$ 1,977	$ 9,446	$ 13,569	$ 2	$ 3,544	$ 111,753
Total Expenditures	(79,791)	(7,026)	(630)	(13,700)	(2,056)	(2,054)	(2,657)	(13,258)	(3,562)	(124,734)
Other Financing Sources (Uses)	4,157			14,041	2,193	(8,402)	(11,690)		2	301
Net Changes in Fund Balances	(87)			353	2,114	(1,010)	(778)	(13,256)	(16)	(12,680)
Fund Balances, Beginning	5,464			10,158	2,127	8,560	11,884	22,923	724	61,840
Fund Balances, Ending	$ 5,377	$ 0	$ 0	$ 10,511	$ 4,241	$ 7,550	$ 11,106	$ 9,667	$ 708	$ 49,160

The District reported 75.1 percent of total revenues from local sources, including property tax levies and the local sales tax revenues. Federal funds accounted for 11.4 percent of total revenues reported, while State funds contributed 13.5 percent. Governmental fund revenues totaled $111.8 million, which is a decrease of $6.6 million from the 2011-12 fiscal year. A summary of the District's funding sources are shown in Table 7 below.

Table 7
Revenues
(in thousands)

	2012	2011	Increase (Decrease)
Federal Direct	$ 3,706	$ 1,821	$ 1,885
Federal Through State and Local	9,063	13,599	(4,536)
State	15,119	13,638	1,481
Local	83,865	89,343	(5,478)
Total	$ 111,753	$ 118,401	$ (6,648)

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned plus assigned fund balance is $4.1 million, while the total fund balance is $5.4 million. The total fund balance decreased by $0.09 million during the fiscal year. Key factors contributing to this change are as follows:

- Revenues decreased $7.1 million mainly from decreases in local property tax revenue.
- Expenditures decreased $5.6 million. The District continues to reduce expenditures and conserve resources to the extent practicable without significantly impacting direct instructional activities.

The Special Revenue – Other Fund accounts for the financial resources of certain Federal grant programs, and revenues and expenditures of this fund totaled $7 million each. Also, the Special Revenue - Federal Economic Stimulus Fund accounts for certain Federal grant program resources related to ARRA and the Education Jobs Fund programs, and revenues and expenditures of this fund totaled $0.6 million each. The resources of these funds were mainly used for instructional salaries and benefits for the 2011-12 fiscal year. The revenues and expenditures of the Federal Economic Stimulus Fund significantly declined from the $5.9 million in revenues and expenditures each recorded in the prior fiscal year because of the expiration of many of the Federal stimulus grants. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in these special revenue funds generally do not accumulate fund balances.

The Debt Service – Other Fund had a total fund balance of $10.5 million, which is restricted for debt service. As discussed in Note 2 to the financial statements, the District reclassified $2.1 million from the beginning fund balance of this fund to the Debt Service – ARRA Economic Stimulus Fund to separately report ARRA debt service financial information. Significant activity during the fiscal year included scheduled sales tax revenue bonds and certificates of participation debt payments. Proceeds to fund these payments were transferred in from various capital projects funds.

The Debt Service – ARRA Economic Stimulus Fund had a total fund balance of $4.2 million, which is restricted for debt service. The significant activity during the fiscal year was the qualified school construction bond (QSCB) certificates of participation debt payments. Proceeds to fund these payments were transferred in from various capital projects funds.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of $7.6 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by $1.0 million because of increased construction activity. It should be noted that $0.5 million of fund balance has been encumbered for specific projects.

The Capital Projects – Other Fund has a total fund balance of $11.1 million, including $6.1 million and $5 million restricted and assigned for construction projects, respectively. As discussed in Note 2 to the financial statements, the District reclassified $22.9 million from the beginning fund balance of this fund to the Capital Projects – ARRA Economic Stimulus Fund to separately report ARRA capital projects financial information. Also, the fund balance decreased $0.8 million in the current fiscal year mainly from use of certificates of participation proceeds received in the prior fiscal year for the construction of a new middle school. Of the total ending fund balance, $4.4 million is encumbered for specific projects.

The Capital Projects – ARRA Economic Stimulus Fund has a total fund balance of $9.7 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased $13.3 million in the current fiscal year mainly from the use of QCSB certificates of participation proceeds received in a prior fiscal year for the construction of a new middle school.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

OTHER MATTERS OF SIGNIFICANCE

As noted in note 21 to the financial statements, the District received financial assistance from Federal and State agencies in the form of grants and appropriations. As of June 30, 2012, questioned costs relating to the disbursement of funds received under these programs totaled $0.7 million. The repayment of any disallowed costs will negatively impact the General Fund.

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

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Director of Finance and Performance, Monroe County School Board, 241 Trumbo Road, Key West, Florida 33040.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 36,499,244.34	$ 2,188,716.00
Investments	16,746,405.18	
Accounts Receivable	747,340.08	244,410.00
Due from Other Agencies	1,400,186.53	
Prepaid Items	491,505.38	147,006.00
Other Assets		23,376.00
Restricted Investments	4,363,174.10	
Inventories	59,834.97	
Deferred Charges	378,408.50	
Capital Assets:		
Nondepreciable Capital Assets	32,062,879.15	2,857,933.00
Depreciable Capital Assets, Net	251,084,969.16	4,845,311.00
TOTAL ASSETS	$ 343,833,947.39	$ 10,306,752.00
LIABILITIES		
Salaries and Benefits Payable	$ 2,604,928.66	$ 442,748.00
Payroll Deductions and Withholdings	500,052.80	
Accounts Payable	4,366,962.86	67,998.00
Notes Payable		10,550.00
Sales Tax Payable	230.88	
Construction Contracts Payable - Retainage	736,497.16	
Due to Other Agencies	16,981.02	
Deposits Payable	24,543.14	
Deferred Revenue	123,306.46	
Compensated Absences Payable		86,812.00
Long-Term Liabilities:		
Portion Due Within One Year	15,987,057.12	
Portion Due After One Year	92,213,749.47	
Total Liabilities	116,574,309.57	608,108.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	200,927,124.57	7,703,244.00
Restricted for:		
State Required Carryover Programs	232,386.11	
Debt Service	14,773,848.68	
Capital Projects	13,742,816.96	
Food Service	529,535.41	
Unrestricted	(2,946,073.91)	1,995,400.00
Total Net Assets	227,259,637.82	9,698,644.00
TOTAL LIABILITIES AND NET ASSETS	$ 343,833,947.39	$ 10,306,752.00

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

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

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 52,496,019.00	$ 85,133.47	$	$
Pupil Personnel Services	4,355,290.56			
Instructional Media Services	759,918.80			
Instruction and Curriculum Development Services	2,185,009.16			
Instructional Staff Training Services	1,310,009.51			
Instruction Related Technology	973,500.72			
School Board	1,099,667.65			
General Administration	860,669.33			
School Administration	4,076,673.05			
Facilities Acquisition and Construction	5,589,461.45			184,025.46
Fiscal Services	817,156.72			
Food Services	3,265,881.98	1,064,721.65	2,139,222.48	
Central Services	1,934,047.66			
Pupil Transportation Services	5,497,671.93	9,670.50		
Operation of Plant	6,007,533.66			
Maintenance of Plant	2,149,657.95			
Administrative Technology Services	362,414.17			
Community Services	706,321.07	472,753.37		
Unallocated Interest on Long-Term Debt	4,332,291.72			265,717.29
Unallocated Depreciation/Amortization Expense*	8,371,323.29			
Total Primary Government	$ 107,150,519.38	$ 1,632,278.99	$ 2,139,222.48	$ 449,742.75
Component Units				
Charter Schools	$ 8,007,939.00	$ 185,785.00	$ 0.00	$ 206,195.00

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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Units
$ (52,410,885.53)	$
(4,355,290.56)	
(759,918.80)	
(2,185,009.16)	
(1,310,009.51)	
(973,500.72)	
(1,099,667.65)	
(860,669.33)	
(4,076,673.05)	
(5,405,435.99)	
(817,156.72)	
(61,937.85)	
(1,934,047.66)	
(5,488,001.43)	
(6,007,533.66)	
(2,149,657.95)	
(362,414.17)	
(233,567.70)	
(4,066,574.43)	
(8,371,323.29)	
(102,929,275.16)	
	(7,615,959.00)
57,990,332.16	
9,442,181.33	
13,440,924.87	
25,298,455.73	8,186,367.00
370,054.63	4,330.00
1,290,177.78	342,915.00
107,832,126.50	8,533,612.00
4,902,851.34	917,653.00
222,356,786.48	8,780,991.00
$ 227,259,637.82	$ 9,698,644.00

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash	$ 6,214,361.51	$ 549,470.86	$ 1,057.75	$ 5,086,371.91
Investments	21,475.37			3,178,989.23
Accounts Receivable	668,635.30			
Due from Other Funds	1,588,797.02			
Due from Other Agencies		1,229,336.45	63,082.57	
Prepaid Items	491,505.38			
Restricted Investments				2,245,527.10
Inventories	22,843.86			
TOTAL ASSETS	$ 9,007,618.44	$ 1,778,807.31	$ 64,140.32	$ 10,510,888.24
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 2,604,928.66	$	$	$
Payroll Deductions and Withholdings	434,719.67	56,501.85	157.76	
Accounts Payable	561,327.89	137,201.96	19,700.00	
Sales Tax Payable	230.88			
Construction Contracts Payable - Retainage				
Due to Other Funds		1,572,733.49	23,823.16	
Due to Other Agencies	4,104.16	12,370.01		
Deposits Payable	24,543.14			
Deferred Revenue			20,459.40	
Total Liabilities	3,629,854.40	1,778,807.31	64,140.32	
Fund Balances:				
Nonspendable:				
Inventory	22,843.86			
Prepaid Amounts	491,505.38			
Total Nonspendable Fund Balance	514,349.24			
Restricted for:				
State Required Carryover Programs	232,386.11			
Debt Service				10,510,888.24
Capital Projects				
Food Service				
Total Restricted Fund Balance	232,386.11			10,510,888.24
Committed for Contractual Agreements	485,963.42			
Assigned for:				
Capital Projects				
Contracts	198,109.49			
Total Assigned Fund Balance	198,109.49			
Unassigned Fund Balance	3,946,955.78			
Total Fund Balances	5,377,764.04			10,510,888.24
TOTAL LIABILITIES AND FUND BALANCES	$ 9,007,618.44	$ 1,778,807.31	$ 64,140.32	$ 10,510,888.24

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$ 2,007,098.95	$ 7,499,042.37	$ 9,814,757.22	$	$ 681,902.55	$ 31,854,063.12
9,079.79	189,387.04	927,245.72	12,289,716.02	22,086.59	16,637,979.76
	11,913.26			36,369.17	716,917.73
		498,096.16		7,759.73	2,094,652.91
107,048.11				719.40	1,400,186.53
					491,505.38
2,117,647.00					4,363,174.10
				36,991.11	59,834.97
$ 4,240,873.85	$ 7,700,342.67	$ 11,240,099.10	$ 12,289,716.02	$ 785,828.55	$ 57,618,314.50
$	$	$	$	$	$ 2,604,928.66
				8,673.52	500,052.80
	149,777.61	31,936.59	1,388,618.86	68,394.80	2,356,957.71
					230.88
			736,497.16		736,497.16
			498,096.26		2,094,652.91
				506.85	16,981.02
					24,543.14
		102,847.06			123,306.46
	149,777.61	134,783.65	2,623,212.28	77,575.17	8,458,150.74
				36,991.11	59,834.97
					491,505.38
				36,991.11	551,340.35
					232,386.11
4,240,873.85				22,086.59	14,773,848.68
	7,550,565.06	6,141,984.54	9,666,503.74	156,631.38	23,515,684.72
				492,544.30	492,544.30
4,240,873.85	7,550,565.06	6,141,984.54	9,666,503.74	671,262.27	39,014,463.81
					485,963.42
		4,963,330.91			4,963,330.91
					198,109.49
		4,963,330.91			5,161,440.40
					3,946,955.78
4,240,873.85	7,550,565.06	11,105,315.45	9,666,503.74	708,253.38	49,160,163.76
$ 4,240,873.85	$ 7,700,342.67	$ 11,240,099.10	$ 12,289,716.02	$ 785,828.55	$ 57,618,314.50

MONRoe COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		$ 49,160,163.76
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.		283,147,848.31
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		378,408.50
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(1,418,435.16)
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Bonds Payable	$ 42,945,000.00	
Certificates of Participation Payable	49,427,000.00	
Compensated Absences Payable	6,585,346.66	
Employee Severance Benefits Payable	1,228,000.93	
Other Postemployment Benefits Payable	3,823,000.00	(104,008,347.59)
Total Net Assets - Governmental Activities		$ 227,259,637.82

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 248,917.87	$ 1,420,661.02	$	$
Federal Through State and Local	715,638.55	5,605,825.07	630,099.95	
State	14,694,479.66			
Local:				
Property Taxes	57,990,332.16			
Local Sales Taxes				
Charges for Services - Food Service				
Miscellaneous	1,897,977.11			11,546.94
Total Local Revenues	59,888,309.27			11,546.94
Total Revenues	75,547,345.35	7,026,486.09	630,099.95	11,546.94
Expenditures				
Current - Education:				
Instruction	52,051,841.70	3,590,582.10	160,144.70	
Pupil Personnel Services	3,108,542.28	1,216,092.60		
Instructional Media Services	674,734.16	64,767.26	15,300.00	
Instruction and Curriculum Development Services	1,160,921.69	892,507.58	115,630.22	
Instructional Staff Training Services	358,886.02	749,929.77	194,172.89	
Instruction Related Technology	966,100.08			
School Board	1,095,881.82	660.00		
General Administration	627,454.53	220,874.54	7,602.26	
School Administration	4,020,380.35	3,202.38	23,177.00	
Facilities Acquisition and Construction	1,019,284.76			
Fiscal Services	795,263.26	16,500.00		
Food Services	17,591.25			
Central Services	1,929,615.24			
Pupil Transportation Services	2,792,470.78	48,120.29		
Operation of Plant	5,995,861.22	5,111.95		
Maintenance of Plant	2,133,810.44	2,338.85		
Administrative Technology Services	359,612.09			
Community Services	601,001.13	102,186.44		
Fixed Capital Outlay:				
Facilities Acquisition and Construction	1,500.00			
Other Capital Outlay	35,891.98	113,612.33	114,072.88	
Debt Service:				
Principal				11,550,000.00
Interest and Fiscal Charges	44,320.06			2,150,435.26
Total Expenditures	79,790,964.84	7,026,486.09	630,099.95	13,700,435.26
Excess (Deficiency) of Revenues Over Expenditures	(4,243,619.49)			(13,688,888.32)
Other Financing Sources (Uses)				
Transfers In	4,156,102.83			14,041,445.21
Refunding Bonds Issued				
Premium on Refunding Bonds				
Insurance Loss Recoveries	1,172.77			
Payments to Refunding Bond Escrow Agent				
Transfers Out				
Total Other Financing Sources (Uses)	4,157,275.60			14,041,445.21
Net Change in Fund Balances	(86,343.89)			352,556.89
Fund Balances, Beginning	5,464,107.93			12,284,854.15
Adjustment to Beginning Fund Balance				(2,126,522.80)
Fund Balances, Beginning as Restated	5,464,107.93			10,158,331.35
Fund Balances, Ending	$ 5,377,764.04	$ 0.00	$ 0.00	$ 10,510,888.24

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
$ 1,976,400.00	$	$ 59,748.88	$	$	$ 3,705,727.77
				2,111,131.48	9,062,695.05
		66,926.71		357,591.77	15,118,998.14
	9,442,181.33				67,432,513.49
		13,439,065.52	1,859.35		13,440,924.87
				1,064,721.65	1,064,721.65
203.99	3,815.32	2,927.30		10,839.64	1,927,310.30
203.99	9,445,996.65	13,441,992.82	1,859.35	1,075,561.29	83,865,470.31
1,976,603.99	9,445,996.65	13,568,668.41	1,859.35	3,544,284.54	111,752,891.27
					55,802,568.50
					4,324,634.88
					754,801.42
					2,169,059.49
					1,302,988.68
					966,100.08
					1,096,541.82
					855,931.33
					4,046,759.73
	1,712,466.05	2,396,390.91	457,719.03		5,585,860.75
					811,763.26
				3,237,178.24	3,254,769.49
					1,929,615.24
					2,840,591.07
					6,000,973.17
					2,136,149.29
					359,612.09
					703,187.57
	251,485.23	261,007.37	12,800,334.73		13,314,327.33
				52,666.82	316,244.01
	85,334.60			220,000.00	11,855,334.60
2,055,500.00	4,682.48			52,142.82	4,307,080.62
2,055,500.00	2,053,968.36	2,657,398.28	13,258,053.76	3,561,987.88	124,734,894.42
(78,896.01)	7,392,028.29	10,911,270.13	(13,256,194.41)	(17,703.34)	(12,982,003.15)
2,193,247.06					20,390,795.10
				655,000.00	655,000.00
				55,081.75	55,081.75
		299,306.68			300,479.45
				(708,241.31)	(708,241.31)
	(8,401,911.13)	(11,988,883.97)			(20,390,795.10)
2,193,247.06	(8,401,911.13)	(11,689,577.29)		1,840.44	302,319.89
2,114,351.05	(1,009,882.84)	(778,307.16)	(13,256,194.41)	(15,862.90)	(12,679,683.26)
	8,560,447.90	34,806,320.76		724,116.28	61,839,847.02
2,126,522.80		(22,922,698.15)	22,922,698.15		
2,126,522.80	8,560,447.90	11,883,622.61	22,922,698.15	724,116.28	61,839,847.02
$ 4,240,873.85	$ 7,550,565.06	$ 11,105,315.45	$ 9,666,503.74	$ 708,253.38	$ 49,160,163.76

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

Net Change in Fund Balances - Governmental Funds		$ (12,679,683.26)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year.		7,793,433.92
The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(1,539,809.89)
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 proceeds exceed repayments in the current fiscal year.		
Refunding Bonds Issued	$ (655,000.00)	
Refunding Bonds Payment to Escrow	690,000.00	
Refunding Issuance Fees	1,016.55	
Certificates of Participation	1,880,000.00	
Bonds Payable	9,890,000.00	
Obligations Under Capital Leases	85,334.60	11,891,351.15
Deferred charges associated with long-term debt issued in the current fiscal year are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current fiscal year.		
Deferred Charges, June 30, 2012	$ 378,408.50	
Deferred Charges, June 30, 2011	(441,476.59)	(63,068.09)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.		864,323.35
Employee severance benefits and 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 decrease in the employee severance benefits and the net increase in other postemployment benefits liability for the current period.		
Employee Severance Benefits Payable	$ 552,983.16	
Other Postemployment Benefits Payable	(166,000.00)	386,983.16
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.		(1,750,679.00)
Change in Net Assets - Governmental Activities		$ 4,902,851.34

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

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

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	4,645,181.22
Investments		53,300.74
Accounts Receivable		30,422.35
Total Current Assets		4,728,904.31
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		55,124.68
TOTAL ASSETS	$	4,784,028.99
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	2,010,005.15
Estimated Insurance Claims Payable		2,113,404.00
Total Current Liabilities		4,123,409.15
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		2,079,055.00
Total Liabilities		6,202,464.15
NET ASSETS		
Unrestricted		(1,418,435.16)
TOTAL LIABILITIES AND NET ASSETS	$	4,784,028.99

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

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

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Contributions	$ 14,269,750.94
Insurance Loss Recoveries	1,230,192.34
Total Operating Revenues	15,499,943.28
OPERATING EXPENSES	
Salaries	168,451.06
Employee Benefits	82,615.85
Purchased Services	2,756,145.67
Materials and Supplies	1,623.61
Capital Outlay	968.37
Insurance Claims	14,240,991.00
Total Operating Expenses	17,250,795.56
Operating Loss	(1,750,852.28)
NONOPERATING REVENUES	
Interest Revenue	173.28
Change in Net Assets	(1,750,679.00)
Net Assets - Beginning	332,243.84
Net Assets - Ending	$ (1,418,435.16)

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

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

		Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board Funds and Participants	$	14,314,032.43
Cash Received from Insurance Loss Recoveries		1,230,192.34
Cash Payments to Suppliers for Goods and Services		(1,566,787.78)
Cash Payments to Employees for Services		(251,440.63)
Cash Payments for Insurance Claims		(13,455,005.24)
Net Cash Provided by Operating Activities		270,991.12
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(173.28)
Interest Income		173.28
Net Cash Provided by Investing Activities		
Net Increase in Cash		270,991.12
Cash, Beginning		4,374,190.10
Cash, Ending	$	4,645,181.22

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating Loss	$	(1,750,852.28)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(7,888.74)
Decrease in Due From Other Funds		52,170.23
Increase in Accounts Payable		1,191,949.63
Decrease in Salaries and Benefits Payable		(373.72)
Increase in Estimated Insurance Claims Payable		785,986.00
Total Adjustments		2,021,843.40
Net Cash Provided by Operating Activities	$	270,991.12

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2012

	Pension Trust Fund	Agency Funds
ASSETS		
Cash	$ 187,855.82	$ 861,911.00
State Board of Administration		
Florida PRIME	7,756.07	
Certificates of Deposit		386,740.00
TOTAL ASSETS	$ 195,611.89	$ 1,248,651.00
LIABILITIES		
Internal Accounts Payable	$	$ 1,248,651.00
NET ASSETS		
Assets Held in Trust for Pension Benefits	195,611.89	
TOTAL LIABILITIES AND NET ASSETS	$ 195,611.89	

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2012

		Pension Trust Fund
ADDITIONS		
Contributions:		
Employer	$	50,500.00
Investment Earnings:		
Interest		13.47
Total Additions		50,513.47
DEDUCTIONS		
Benefits Paid to Participants		50,471.88
Change in Net Assets		41.59
Net Assets - Beginning		195,570.30
Net Assets - Ending	$	195,611.89

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Blended Component Unit. The Monroe School Board Leasing Corp. (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 7. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's other component units.

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

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2012. The audit reports are filed in the District's administrative offices.

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

Basis of Presentation:

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

  Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the 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, except for interfund services provided and used.

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

  The District reports the following major governmental funds:

  - General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
  - Special Revenue – Other Fund – to account for certain Federal grant program resources.
  - Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
  - Debt Service - Other Fund – to account for debt service related to construction borrowing.
  - Debt Service – ARRA Economic Stimulus Fund – to account for principal and interest payments related to the ARRA economic stimulus, qualified school construction bonds.
  - Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases for relocatable school buildings.

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

- Capital Projects – Other Fund – to account for financial resources earmarked for capital projects, generated by all sources not required to be reported in any other fund, such as local sales tax, certificates of participation, and Federal Emergency Management Agency proceeds.
- Capital Projects – ARRA Economic Stimulus Fund – to account for the construction activities related to the ARRA economic stimulus, qualified school construction bonds.

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

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

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

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

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

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are Board contributions for premium revenues of the property and casualty, workers' compensation, and group medical self-insurance programs and charges for self-insurance premiums for dependent and retiree coverage.

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

Operating expenses include salaries and benefits, purchased services, and insurance claims. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

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

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of Fannie Mae Subordinated Benchmark Notes, 5.25 percent; certificates of deposit; and money market funds and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

Inventories. Inventories consist of purchased food and donated foods of the food service program and fuel for the District's vehicles which are held for consumption in the course of District operations. Inventories are stated at cost, except that United States Department of Agriculture 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 weighted-average method is used in pricing the fuel inventory. The first-in, first-out method is used in pricing the purchased food and donated foods inventory. The costs of inventories are recorded as expenditures when used rather than purchased. Although the costs of inventories are recorded as expenditures when used rather than purchased, inventory balances are

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

offset by nonspendable fund balance in applicable governmental funds to indicate these balances do not constitute available expendable resources, even though they are a component of current assets.

Prepaid Items. Prepaid items are reported in the governmental funds under the consumption method.

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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

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

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

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

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

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

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

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

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

by the District, except that revenue is accrued for taxes collected by the Monroe County Tax Collector at fiscal year-end but not yet remitted to the District.

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

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

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

2. ACCOUNTING CHANGES

Pursuant to the *Florida Financial and Program Cost Accounting and Reporting for Florida Schools (Red Book)*, the Florida Department of Education requires that the District report the Debt Service – ARRA Economic Stimulus Fund and Capital Projects – ARRA Economic Stimulus Fund as major governmental funds for financial reporting transparency of ARRA debt service and capital projects transactions, respectively. In prior fiscal years, the District reported these transactions in the Capital Projects - Other Fund and Debt Service - Other Fund, necessitating the following accounting changes to reported beginning fund balances:

	Capital Projects - Other Fund	Debt Service - Other Fund	Capital Projects - ARRA Economic Stimulus Fund	Debt Service - ARRA Economic Stimulus Fund
Beginning Fund Balances July 1, 2011	$ 34,806,320.76	$ 12,284,854.15	$	$
Accounting Changes	(22,922,698.15)	(2,126,522.80)	22,922,698.15	2,126,422.80
Restated: Beginning Fund Balances July 1, 2011	$ 11,883,622.61	$ 10,158,331.35	$ 22,922,698.15	$ 2,126,422.80

3. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

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

- 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.

Deficit Net Assets in Individual Nonmajor Funds.

The following internal service funds have deficit net asset balances at June 30, 2012:

	Beginning Net Assets	Change in Net Assets	Ending Net Assets
Workers' Compensation / General Liability Insurance Fund	$(981,278.06)	$ (920,054.27)	$ (1,901,332.33)

To address the declining financial position of the Workers' Compensation/General Liability Internal Service Fund, the District intends to reevaluate premium contributions and increase premiums to help restore a favorable net asset balance.

4. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME	38 Day Average	$ 3,598,433.39
Fund B	5.73 Year Average	555,157.83
Debt Service Accounts	6 Months	22,086.59
Fidelity Insititutional Money Market Government Portfolio - Class I (1)	60 Days or Less Weighted Average	14,416,447.45
Fidelity Insititutional Money Market Treasury Portfolio - Class I (3)	60 Days or Less Weighted Average	302,125.67
Fidelity Insititutional Money Market Treasury Portfolio - Class III	60 Days or Less Weighted Average	206.28
Fannie Mae Subordinated Benchmark Notes, 5.25 Percent (2)	August 1, 2012	2,222,878.14
Certificates of Deposit	Various, from July 2012 to January 2014	386,740.00
Total Investments		$ 21,504,075.35

Notes: (1) A portion ($2,117,647) of these investments are held by a paying agent in connection with the Qualified School Construction Bonds arrangement (See note 7).
(2) These investments are held by a paying agent in connection with the Qualified Zone Academy Bonds financing arrangement (See note 7).
(3) A portion ($214,752.46) of these investments are held by a paying agent in connectin with the Qualified Zone Academy Bonds financing arrangement (See note 7).

- Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The Policy limits current short-term funds investments to a maximum of one year, and investments of bond reserves, construction moneys, and other core funds to a term appropriate to the need for moneys and in accordance with debt covenants, but not to exceed three years

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

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. As of June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) 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 authorizes investing in the Local Government Surplus Funds Trust Fund, or any intergovernmental pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; United States Government securities; SEC registered money market funds interest-bearing time deposits or saving accounts; securities of, or other interest in, an open-ended or closed-ended management type investment company or investments trust registered under the Investment Company Act of 1940; and other investments as authorized by law and not prohibited by the investment policy.

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

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

The Fidelity Institutional Money Market Government Portfolio – Class I normally invests at least 80 percent of assets in United States Government securities and repurchase agreements for those securities. As of June 30, 2012, the District's investments in the Fidelity Institutional Money Market Government Portfolio – Class I were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.

The Fidelity Institutional Money Market Treasury Portfolio – Class I and the Fidelity Institutional Money Market Treasury Portfolio – Class III normally invests at least 80 percent of assets in United States Treasury securities and repurchase agreements for those securities. As of June 30, 2012, the District's investments in the Fidelity Institutional Money Market Treasury Portfolio - Class I and Fidelity Institutional Money Market Treasury Portfolio – Class III were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.

The District's investment in the Fannie Mae Subordinated Benchmark Notes, 5.25 percent is rated A by Standard & Poor's and AA2 by Moody's Investors Service. This investment is made pursuant to the Qualified Zone Academy Bond financing agreement, and thus is not subject to the District's investment policy.

MONROE COUNTY
DISTRICT SCHOOL BOARD
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The District's investments in certificates of deposit are in qualified public depositories.

- Custodial Credit Risk

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

- Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy limits investments, which are subject to concentration of credit risk, to a maximum of 10 percent of available moneys. This policy does not apply to pension moneys, trust funds, and debt proceeds where there are other existing policies, resolutions, or indentures in effect for the investment of such moneys. Moneys held by State agencies (e.g., Florida Department of Education) are also not subject to the provisions of this policy.

The District investments in the Fannie Mae subordinated benchmark notes are 10.3 percent of the District's total investments and 41 percent of the investments in the Debt Service – Other Fund. These investments are made pursuant to agreements with the qualified zone academy bonds paying agents (see note 7).

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5. 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	$ 6,611,909.33	$	$ 76,597.00	$ 6,535,312.33
Construction in Progress	13,343,598.89	12,612,554.82	428,586.89	25,527,566.82
Total Capital Assets Not Being Depreciated	19,955,508.22	12,612,554.82	505,183.89	32,062,879.15
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	13,157,858.30	100,978.32	883,239.13	12,375,597.49
Buildings and Fixed Equipment	282,981,673.31	585,690.62	1,641,355.00	281,926,008.93
Furniture, Fixtures, and Equipment	18,940,682.42	3,884,153.28	1,270,844.66	21,553,991.04
Motor Vehicles	7,791,641.69	120,926.00	1,216,589.25	6,695,978.44
Property Under Capital Leases	3,249,835.17		3,249,835.17	
Audio Visual Materials and Computer Software	3,932,849.14	124,494.76	146,830.10	3,910,513.80
Total Capital Assets Being Depreciated	330,054,540.03	4,816,242.98	8,408,693.31	326,462,089.70
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	8,404,672.91	683,038.29	220,573.11	8,867,138.09
Buildings and Fixed Equipment	38,257,700.82	3,795,397.63	1,018,078.60	41,035,019.85
Furniture, Fixtures, and Equipment	15,614,195.47	3,293,897.37	1,107,717.54	17,800,375.30
Motor Vehicles	4,942,674.89	89,134.56	1,205,742.90	3,826,066.55
Property Under Capital Leases	2,215,421.54	1,034,413.63	3,249,835.17	
Audio Visual Materials and Computer Software	3,681,158.34	310,895.51	143,533.10	3,848,520.75
Total Accumulated Depreciation	73,115,823.97	9,206,776.99	6,945,480.42	75,377,120.54
Total Capital Assets Being Depreciated, Net	256,938,716.06	(4,390,534.01)	1,463,212.89	251,084,969.16
Governmental Activities Capital Assets, Net	$ 276,894,224.28	$ 8,222,020.81	$ 1,968,396.78	$ 283,147,848.31

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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 835,453.70
Unallocated	8,371,323.29
Total Depreciation Expense - Governmental Activities	$ 9,206,776.99

6. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	$ 0	$ 5,000,000	$ 5,000,000	$ 0

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

7. CERTIFICATES OF PARTICIPATION

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

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

On December 29, 2005, the master financing arrangement was amended and the Corporation issued Certificates of Participation, Qualified Zone Academy Bonds (QZAB), Series 2005, in the amount of $4,842,000 for heating, ventilation, and conditioning; electrical; and general facilities improvements at several District properties. Under

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the terms of the lease agreement, the District is required to make ten annual payments of $341,007.95 each, which are deposited with a trustee and invested in accordance with a security delivery agreement until maturity and, when combined with interest earnings, will be sufficient to pay off the principal balance in full, at maturity on December 29, 2020.

On June 24, 2010, Certificates of Participation, Series 2010A, were issued under the Qualified School Construction Bond program in the amount of $36,000,000 to finance the construction of a new middle school. The Qualified School Construction Bond program was established under the American Recovery and Reinvestment Act of 2009, to provide for a taxable obligation to be issued by the school district with a Federal subsidy for interest. The Series 2010A Certificates were issued by the Corporation as direct pay bonds whereby the District pays interest of 5.7 percent and receives a 5.49 percent interest subsidy, which is paid directly to the District by the United States Treasury. Under the terms of the trust agreement, the District is required to make 17 annual payments of $2,117,647 each, which are to be deposited with a trustee and invested in accordance with a trust agreement until maturity and, when combined with interest earnings, will be sufficient to pay off the principal balance in full, at maturity on June 1, 2027. The required annual payment of $2,117,647 for the 2011-12 fiscal year was deposited with the trustee on August 24, 2012.

As a condition of the financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of $1 per year. The initial term of the lease is 25 years commencing on October 15, 1996 and ending August 1, 2021. A separate ground lease commencing on June 1, 2010 and ending on June 1, 2032, was given to the corporation for the facilities being financed by the Series 2010A Certificates. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements for the benefit of the securers of the certificates for a period of time specified by the arrangements which may be up to 30 years from the date of inception of the arrangement.

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

- Gerald Adams Elementary School
- Glynn Archer Elementary School
- Horace O'Bryant Middle School
- Marathon High School
- Stanley Switlik Elementary School
- Sugarloaf Middle School

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

Certificates	Payment Dates	Interest Rates
Series 2004A	February 1 and August 1	3.75 to 4.375 percent
Series 2010A	June 1 and December 1	5.7 (0.21 net) percent

The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 4,310,612.50	$ 1,950,000.00	$ 2,360,612.50
2014	4,308,550.00	2,025,000.00	2,283,550.00
2015	4,305,950.00	2,105,000.00	2,200,950.00
2016	4,307,206.25	2,195,000.00	2,112,206.25
2017	2,368,781.25	310,000.00	2,058,781.25
2018-2022	15,102,000.00	4,842,000.00	10,260,000.00
2023-2027	46,260,000.00	36,000,000.00	10,260,000.00
Total Minimum Lease Payments	$ 80,963,100.00	$ 49,427,000.00	$ 31,536,100.00

8. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A, Refunding	$ 100,000	5.0	2017
Series 2011A	655,000	3.0 - 5.0	2015
District Sales Tax Revenue Bonds:			
Series 2005	32,220,000	3.375 - 5.000	2015
Series 2007	9,970,000	3.98	2015
Total Bonds Payable	$ 42,945,000		

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

- State School Bonds

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The

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State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

- District Revenue Bonds

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

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

The District has pledged a combined total of $45,638,614.91 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2005 Sales Tax Revenue Bond issue described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling $13,440,924.87 and expended $11,439,335.26, (85.1 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt, or October 1, 2015. Assuming a nominal growth rate of 3.1 percent in the collection of sales tax revenues, which are levied through December 31, 2015, approximately 99.8 percent of the revenue stream has been pledged in connection with debt service on the revenue bonds.

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

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Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	$ 274,161.02	$ 240,000.00	$ 34,161.02
2014	269,750.00	245,000.00	24,750.00
2015	232,500.00	220,000.00	12,500.00
2016	16,500.00	15,000.00	1,500.00
2017	35,750.00	35,000.00	750.00
Total State School Bonds	828,661.02	755,000.00	73,661.02
District Sales Tax Revenue Bonds:			
2013	11,421,381.01	9,995,000.00	1,426,381.01
2014	11,419,526.01	10,355,000.00	1,064,526.01
2015	11,411,145.26	10,725,000.00	686,145.26
2016	11,386,562.63	11,115,000.00	271,562.63
Total District Sales Tax Revenue Bonds	45,638,614.91	42,190,000.00	3,448,614.91
Total	$ 46,467,275.93	$ 42,945,000.00	$ 3,522,275.93

On January 5, 2012, the State Board of Education (SBE) issued $53,785,000 of Capital Outlay Refunding Bonds, Series 2011A. The District's portion of this bond issue, $655,000, was used to refund the remaining outstanding SBE Capital Outlay Bonds, Series 2002B. The District's portion of the Series 2011A bonds reduced total debt service payments over the next 3 years by approximately $70,983 and the District obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately $48,339.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

9. 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					
Estimated Insurance Claims Payable	$ 3,406,473.00	$ 14,292,248.05	$ 13,506,262.05	$ 4,192,459.00	$ 2,113,404.00
Obligations Under Capital Leases	86,351.15		86,351.15		
Bonds Payable	52,870,000.00	655,000.00	10,580,000.00	42,945,000.00	10,235,000.00
Certificates of Participation Payable	51,307,000.00		1,880,000.00	49,427,000.00	1,950,000.00
Compensated Absences Payable	7,449,670.01	429,387.29	1,293,710.64	6,585,346.66	647,037.42
Employee Severance Benefits Payable	1,780,984.09		552,983.16	1,228,000.93	1,041,615.70
Other Postemployment Benefits Payable	3,657,000.00	1,382,000.00	1,216,000.00	3,823,000.00	
Total Governmental Activities	$ 120,557,478.25	$ 16,758,635.34	$ 29,115,307.00	$ 108,200,806.59	$ 15,987,057.12

For the governmental activities, compensated absences, employee severance benefits, and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as discussed in notes 19 and 20.

10. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 1,588,797.02	$
Special Revenue:		
Other		1,572,733.49
Federal Economic Stimulus		23,823.16
Capital Projects:		
Other	498,096.16	
ARRA Economic Stimulus		498,096.26
Nonmajor Governmental	7,759.73	
Total	$ 2,094,652.91	$2,094,652.91

The amount due to the General Fund from the Special Revenue – Other Fund and the Special Revenue – Federal Economic Stimulus Fund is to finance authorized activities of grants and contracts, which are financed on a cost reimbursement basis. The amounts due to the Capital Projects – Other is related to a negative cash balance in a pooled cash account. The amount due to the nonmajor governmental funds is for services provided to a program of the Special Revenue – Other Fund.

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 4,156,102.83	$
Debt Service		
Other	14,041,445.21	
ARRA Economic Stimulus	2,193,247.06	
Capital Projects:		
Local Capital Improvement Fund		8,401,911.13
Other		11,988,883.97
Total	$20,390,795.10	$ 20,390,795.10

Interfund transfers represent permanent transfer of moneys between funds. The transfers out of the Capital Projects – Local Capital Improvement (LCI) Fund to the General Fund were to reimburse the General Fund for maintenance, capital expenditures, and property casualty insurance premiums recorded in the General Fund. Additionally, funds were transferred from the LCI Fund and the Capital Projects - Other Fund to the Debt Service - Other Fund and Debt Service – ARRA Economic Stimulus Fund to make debt service payments for the certificates of participation and sales tax revenue bonds.

11. FUND BALANCE REPORTING

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

- Nonspendable

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

- Restricted

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

- Committed

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

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- Assigned

  The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent, as authorized by Board Policy 6320 and not included in other categories.

- Unassigned

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

Minimum Fund Balance Policy. The District has adopted Board Policy 6210 which provides that the Board shall strive to maintain an unassigned fund balance in its operating funds equal to 5 percent of annual expenditures. At June 30, 2012, the District essentially met this policy with an unassigned fund balance of 4.9 percent.

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	$ 9,076,199.00
Florida Education Finance Program	3,522,545.00
Workforce Development Program	671,534.00
Voluntary Prekindergarten	491,617.54
School Recognition	357,660.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	323,067.16
Diagnostic and Learning Resources Centers	188,000.00
Adults with Disabilities	70,795.66
Mobile Home License Tax	28,557.82
Food Service Supplement	28,091.00
Discretionary Lottery Funds	26,600.00
Miscellaneous	334,330.96
Total	$ 15,118,998.14

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

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13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	1.817	$ 35,154,916
Basic Discretionary Local Effort	0.748	14,472,139
Voted School Tax		
Additional Operating	0.500	9,673,890
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.500	9,673,890
Total	3.565	$ 68,974,835

14. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $5,165,057.22, $5,412,821.15, and $3,104,453.95, respectively, which were equal to the required contributions for each fiscal year.

There were 168 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $626,480.93, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and

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other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

15. EARLY RETIREMENT PLAN

Plan Description. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (ERP) effective July 1, 1992. The ERP is a single-employer public employee retirement system (PERS) and was offered for only one year. The purpose of the ERP was to provide eligible District employees, who elect to retire under the early retirement provisions of the FRS described in note 14, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62.

The Board administers the ERP assets in a pension trust fund and is responsible for their investment. The Board appoints and removes the ERP administrator.

A summary of Eligibility and Benefits follows:

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

As of June 30, 2012, there were eight retirees and their beneficiaries receiving benefits under the ERP. There are no current employees eligible to participate in the ERP.

Summary of Significant Accounting Policies. Significant accounting policies related to basis of accounting and method of asset valuation are disclosed in note 1. Investment disclosures related to the pension trust fund are in note 4.

Contributions and Reserves. The ERP was established by the Board on July 1, 1992, and may be amended by Board action. Pursuant to the ERP agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the ERP and to amortize the unfunded actuarial accrued liability within 9.55 years based on the July 1, 2011, actuarial study.

Periodic employer contributions to the ERP are determined on an actuarial basis using the aggregate cost method. Under this actuarial cost method, a funding cost is developed for the ERP as a level dollar amount per individual. The level dollar amount is calculated as the excess of the total future benefit liability over accumulated assets and future employee contributions, with this excess spread over the life expectancy for current retired participants and their beneficiaries. The normal cost is equal to the level dollar amount multiplied by the total life expectancy for retired participants and their beneficiaries solely during the year immediately following the valuation date. The actuarial accrued liability is equal to the accumulated assets. Therefore, under the aggregate cost method, no unfunded accrued liability is developed.

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Significant actuarial assumptions used to compute annual required contributions are the same as those used to determine the actuarial accrued liability.

Total contributions to the ERP in the 2011-12 fiscal year amounted to $50,500, all of which were paid by the Board, and were $643 more than the actuarially determined contribution requirement determined through the actuarial valuation performed as of July 1, 2011.

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

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

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
7-1-2011	$ 182,324	$ 627,470	$ 445,146	29.1%	(1)	(1)

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

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

Valuation Date	7-1-2011
Actuarial Cost Method	Aggregate Cost Method
Amortization Method	Level Dollar, closed
Remaining Amortization Period	9.55 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4%
Cost-of-Living Adjustment	3%

16. SPECIAL TERMINATION BENEFITS

In April 2010, the Board implemented a one-time Employee Severance Plan (ESP) for the payment of special termination benefits to all full-time employees with ten or more consecutive years of service with the District who were looking to either retire or resign and pursue other opportunities. Under the ESP, teachers and administrators receive $60,000, which is paid out over a period not to exceed 96 months. Support staff receive an amount equal to the employee's compensation for the fiscal year ending June 30, 2010, up to $30,000, which is paid out over a period not to exceed 96 months. The District reserves the right to retain certain teachers or staff

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

represented by the United Teachers of Monroe for up to one year beyond the elected exit date, based on the District's operational and educational needs. There are 68 employees who elected to participate in the ESP. The District will make contributions into 403(b) accounts for the ESP participants who retire under the FRS. Participants in the ESP who do not elect to retire under the FRS and instead terminate, will receive benefit payments directly from the District, subject to all applicable taxes. The estimated liability at June 30, 2012, for persons participating in the ESP is $1,228,000.93, and this amount is not discounted.

17. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's healthcare and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, the District contributes a portion of the premium cost for retiree healthcare coverage. The amounts contributed are determined annually by Board action. Retirees are assumed to enroll in the Federal Medicare Program for their primary coverage as soon as they are eligible. The OPEB 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 OPEB Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 193 retirees received other postemployment benefits. The District provided required contributions of $1,216,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of excess insurance), administrative expenses, and excess insurance premiums, and net of retiree contributions totaling $994,663.09, which represents 1.7 percent of covered payroll.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Amount
Normal Cost (service cost for one year)	$ 516,000
Amortization of Unfunded Actuarial Accrued Liability	811,000
Interest on Normal Cost and Amortization	59,000
Annual Required Contribution	1,386,000
Interest on Net OPEB Obligation	(169,000)
Adjustment to Annual Required Contribution	165,000
Annual OPEB Cost (Expense)	1,382,000
Contribution Toward the OPEB Cost	(1,216,000)
Increase in Net OPEB Obligation	166,000
Net OPEB Obligation, Beginning of Year	3,657,000
Net OPEB Obligation, End of Year	$ 3,823,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 2,461,000	42.2%	$ 2,711,000
2010-11	2,569,000	63.2%	3,657,000
2011-12	1,382,000	88.0%	3,823,000

Funded Status and Funding Progress. As of July 2010, the most recent valuation date, the actuarial accrued liability for benefits was $13,800,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $13,800,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $59,005,787.71, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 23.4 percent.

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

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of July 1, 2010, used the projected unit credit method to estimate the unfunded actuarial liability as of July 1, 2011, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent annual discount rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2 percent per year, and an annual healthcare cost trend rate of 11 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, until an ultimate rate of 5 percent is reached. The unfunded actuarial accrued liability is amortized over the maximum allowable period of 30 years on an open basis. It is calculated assuming a level percentage of projected payroll.

18. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

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

Major Funds						
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
$684,072.91	$ 266,557.36	$3,348.02	$501,714.05	$ 4,411,018.73	$ 23,517.04	$5,890,228.11

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

<u>**Construction Contracts**</u>. The District's major construction contract commitments at fiscal year-end are as follows:

Project	Contract Amount	Completed to Date	Balance Committed
New Horace O'Bryant Middle School			
Contractor	$ 33,130,329.00	$ 22,807,136.77	$ 10,323,192.23
Architect	2,393,296.39	2,018,000.00	375,296.39
Total	$ 35,523,625.39	$ 24,825,136.77	$ 10,698,488.62

19. RISK MANAGEMENT PROGRAMS

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

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

The plan for group medical insurance provides that the District contributes premiums as a fringe benefit to employees. The District also contributes for dependent coverage for several administrative employees. Dependent coverage for other employees and coverage for retirees and their dependents is by prepaid premium. The District's liability under the group medical plan is limited to $250,000 annually for each person. The District's reimbursements from excess insurance coverage for aggregate claims is limited to a total of $1,000,000 annually.

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

A liability in the amount of $4,192,159 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable for the group medical, workers' compensation, and automobile and general liability self-insurance programs at June 30, 2012.

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

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

Fiscal Year	Fiscal-Year Liability	Claims and Changes in Estimates	Payments	Fiscal Year-End
2010-11	$ 3,208,048	$ 12,704,906	$ (12,506,481)	$ 3,406,473
2011-12	3,406,473	14,240,991	(13,455,005)	4,192,459

20. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2011-12 fiscal year:

	Total	Workers' Compensation/ General Liability	VISTA Insurance	Health Insurance
Total Assets	$ 4,784,028.99	$ 1,326,350.67	$ 89,233.32	$ 3,368,445.00
Liabilities and Net Assets:				
Accounts Payable	$ 2,010,005.15	$	$	$ 2,010,005.15
Estimated Insurance Claims Payable	4,192,459.00	3,227,683.00		964,776.00
Net Assets:				
Unrestricted Net Assets	(1,418,435.16)	(1,901,332.33)	89,233.32	393,663.85
Total Liabilities and Net Assets	$ 4,784,028.99	$ 1,326,350.67	$ 89,233.32	$ 3,368,445.00
Revenues:				
Premium Contributions	$ 14,269,750.94	$ 1,369,754.95	$ 68,812.80	$ 12,831,183.19
Insurance Loss Recoveries	1,230,192.34	231,057.83		999,134.51
Interest Income	173.28	173.28		
Total Revenues	15,500,116.56	1,600,986.06	68,812.80	13,830,317.70
Total Expenses	(17,250,795.56)	(2,521,040.33)	(31,992.09)	(14,697,763.14)
Change in Net Assets	$ (1,750,679.00)	$ (920,054.27)	$ 36,820.71	$ (867,445.44)

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

21. 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 audit for the fiscal years ended June 30, 2008, June 30, 2009, June 30, 2010, June 30, 2011, and June 30, 2012, totaled $31,483.16, $122,593.94, $425,163.31, $2,072.90, and $70,589.11, respectively, for a total of $651,902.42.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 253,764.36	$ 288,271.81	$ 248,917.87	$ (39,353.94)
Federal Through State and Local	503,000.00	647,776.21	715,638.55	67,862.34
State	14,901,436.45	14,758,127.55	14,694,479.66	(63,647.89)
Local:				
Property Taxes	57,848,615.00	57,848,615.00	57,990,332.16	141,717.16
Miscellaneous	1,336,665.47	1,362,290.83	1,897,977.11	535,686.28
Total Local Revenues	59,185,280.47	59,210,905.83	59,888,309.27	677,403.44
Total Revenues	74,843,481.28	74,905,081.40	75,547,345.35	642,263.95
Expenditures				
Current - Education:				
Instruction	52,388,939.46	52,983,730.01	52,051,841.70	931,888.31
Pupil Personnel Services	3,292,748.20	3,329,349.74	3,108,542.28	220,807.46
Instructional Media Services	600,142.19	701,670.68	674,734.16	26,936.52
Instruction and Curriculum Development Services	1,128,703.54	1,272,339.28	1,160,921.69	111,417.59
Instructional Staff Training Services	327,510.76	396,879.81	358,886.02	37,993.79
Instruction Related Technology	990,385.23	1,028,777.41	966,100.08	62,677.33
School Board	883,773.50	1,283,068.29	1,095,881.82	187,186.47
General Administration	644,559.79	639,248.23	627,454.53	11,793.70
School Administration	4,254,839.49	4,059,793.99	4,020,380.35	39,413.64
Facilities Acquisition and Construction	441,532.21	1,034,749.47	1,019,284.76	15,464.71
Fiscal Services	812,155.95	828,453.65	795,263.26	33,190.39
Food Services		17,591.31	17,591.25	0.06
Central Services	1,977,611.07	1,995,660.08	1,929,615.24	66,044.84
Pupil Transportation Services	3,017,595.03	2,920,256.56	2,792,470.78	127,785.78
Operation of Plant	5,936,166.04	6,188,468.51	5,995,861.22	192,607.29
Maintenance of Plant	2,229,439.81	2,250,397.74	2,133,810.44	116,587.30
Administrative Technology Services	362,553.07	362,512.51	359,612.09	2,900.42
Community Services	713,158.94	718,158.83	601,001.13	117,157.70
Fixed Capital Outlay:				
Facilities Acquisition and Construction		1,500.00	1,500.00	
Other Capital Outlay		35,891.98	35,891.98	
Debt Service:				
Interest and Fiscal Charges		53,843.94	44,320.06	9,523.88
Total Expenditures	80,001,814.28	82,102,342.02	79,790,964.84	2,311,377.18
Excess (Deficiency) of Revenues Over Expenditures	(5,158,333.00)	(7,197,260.62)	(4,243,619.49)	2,953,641.13
Other Financing Sources (Uses)				
Transfers In	3,888,419.00	4,370,691.00	4,156,102.83	(214,588.17)
Insurance Loss Recoveries			1,172.77	1,172.77
Transfers Out	(50,500.00)			
Total Other Financing Sources (Uses)	3,837,919.00	4,370,691.00	4,157,275.60	(213,415.40)
Net Change in Fund Balances	(1,320,414.00)	(2,826,569.62)	(86,343.89)	2,740,225.73
Fund Balances, Beginning	4,533,571.00	5,464,107.93	5,464,107.93	
Fund Balances, Ending	$ 3,213,157.00	$ 2,637,538.31	$ 5,377,764.04	$ 2,740,225.73

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 1,545,679.61	$ 1,575,367.41	$ 1,420,661.02	$ (154,706.39)	$	$	$	$
5,968,869.94	7,788,909.02	5,605,825.07	(2,183,083.95)	722,814.78	722,814.78	630,099.95	(92,714.83)
7,514,549.55	9,364,276.43	7,026,486.09	(2,337,790.34)	722,814.78	722,814.78	630,099.95	(92,714.83)
3,863,969.97	4,936,899.37	3,590,582.10	1,346,317.27	270,545.98	207,899.26	160,144.70	47,754.56
1,041,627.04	1,556,352.97	1,216,092.60	340,260.37				
95,814.00	114,976.84	64,767.26	50,209.58	22,800.00	22,800.00	15,300.00	7,500.00
1,102,595.53	1,077,570.77	892,507.58	185,063.19	49,793.40	121,907.56	115,630.22	6,277.34
1,016,672.17	1,044,761.71	749,929.77	294,831.94	272,729.99	215,777.43	194,172.89	21,604.54
788.00	660.00	660.00					
160,132.84	248,665.40	220,874.54	27,790.86	16,472.65	8,680.65	7,602.26	1,078.39
7,577.00	3,202.38	3,202.38		23,177.00	23,177.00	23,177.00	
				8,500.00	8,500.00		8,500.00
15,055.50	16,500.00	16,500.00					
170,182.93	102,165.91	48,120.29	54,045.62	1,487.14			
19,221.60	13,767.64	5,111.95	8,655.69				
14,912.97	19,773.28	2,338.85	17,434.43				
6,000.00	115,367.83	102,186.44	13,181.39				
	113,612.33	113,612.33			114,072.88	114,072.88	
7,514,549.55	9,364,276.43	7,026,486.09	2,337,790.34	665,506.16	722,814.78	630,099.95	92,714.83
				57,308.62			
				57,308.62			
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 57,308.62	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (1) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2009	$ 0	$ 26,358,000	$ 26,358,000	0.0%	$ 61,418,893.81	42.9%
July 1, 2010	0	31,965,000	31,965,000	0.0%	59,005,787.71	54.2%
July 1, 2010 (2)	0	13,800,000	13,800,000	0.0%	59,005,787.71	23.4%

Notes: (1) The District's OPEB valuation used the projected unit credit method to estimate the actuarial accrued liability.
(2) The District obtained an updated July 1, 2010, actuarial valuation after changing certain plan provisions.

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2005	$ 139,736.00	$ 469,988.00	$ 330,252.00	29.7%	(1)	(1)
July 1, 2006	149,739.00	612,594.00	462,855.00	24.4%	(1)	(1)
July 1, 2007	167,658.00	596,184.00	428,526.00	28.1%	(1)	(1)
July 1, 2008	181,849.33	596,184.00	414,334.67	30.5%	(1)	(1)
July 1, 2009	195,268.94	659,800.00	464,531.06	29.6%	(1)	(1)
July 1, 2011	182,324.00	627,470.00	445,146.00	29.1%	(1)	(1)

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

As the aggregate cost method does not identify or separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funding progress of the plan.

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

Year Ended June 30	Annual Required Contribution	Percentage Contribution
2007	$ 51,796	100.0%
2008	63,976	100.0%
2009	63,976	100.0%
2010	50,365	127.0%
2011	50,365	99.3%
2012	49,857	101.3%

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The updated July 1, 2010, unfunded actuarial accrued liability of $13,800,000 was significantly lower than the original July 1, 2010, liability of $31,965,000. The primary reason for this decrease is that the Board discontinued the post-Medicare subsidies provided to retirees for current and future retirees effective August 1, 2012. As a result, very few Medicare-eligible retirees have remained on the plan, and the premiums charged to those that have remained are expected to fully fund the cost of their coverage, eliminating all liability associated with the Medicare-eligible retirees. Also, the Board has introduced a second benefit plan that is less rich than the current plan provided and has tied its subsidy to the lower benefit plan, so that any employee remaining on the original plan will have to pay an additional premium equal to the difference in value between the plans. The estimates used to calculate the liability reflect these changes.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	$ 128,501.16
National School Lunch Program	10.555	300, 350	536,403.66
Summer Food Service Program for Children	10.559	323	53,492.12
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	241,617.24
National School Lunch Program	10.555 (2)(A)	300, 350	1,151,117.30
Total United States Department of Agriculture			2,111,131.48
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041 (2)(B)	None	56,132.47
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	205,025.78
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	37,100.91
Fund for the Improvement of Education	84.215	N/A	171,248.79
Total Direct			413,375.48
Indirect:			
Florida Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	1,481,970.80
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	53,958.45
Total Title I, Part A Cluster			1,535,929.25
Special Education Cluster:			
Special Education - Grants to States	84.027	263	1,914,231.55
Special Education - Preschool Grants	84.173	267	83,577.78
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	235,668.62
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	15,215.82
Total Special Education Cluster			2,248,693.77
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	127	41,242.71
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	2,324.23
Total Education for Homeless Children and Youth Cluster			43,566.94
Adult Education - Basic Grants to States	84.002	191, 193	247,200.86
Career and Technical Education - Basic Grants to States	84.048	161	61,561.40
Charter Schools	84.282	298	249,757.02
Twenty-First Century Community Learning Centers	84.287	244	857,782.06
English Language Acquisition Grants	84.365	102	102,605.91
Improving Teacher Quality State Grants	84.367	224	390,319.99
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	322,932.83
Palm Beach County District School Board:			
Voluntary Public School Choice	84.361	None	152,856.91
Total Indirect			6,213,206.94
Total United States Department of Education			6,626,582.42

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	$ 1,249,412.23
Indirect:			
Florida Department of Children and Families:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	KH 225-29	96,919.30
Total United States Department of Health and Human Services			1,346,331.53
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	41,093.79
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	359,055.56
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	6,791.18
Total Expenditures of Federal Awards			$ 10,547,118.43

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:

(A) National School Lunch Program - Includes $42,261.75 of donated food received during the fiscal year and also includes $175,299 of cash received in lieu of commodites. Donated foods are valued at fair value as determined at the time of donation.

(B) State Energy Program - Represents the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Head Start. Expenditures include $101,706.15 for grant number/program year 04CH0391/20 and $1,147,706.08 for grant number/program year 04CH0391/21.

AUDITOR GENERAL

STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Monroe County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Monroe County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

AUDITOR GENERAL

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

Compliance

We have audited the Monroe County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. 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. 1 through 5.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program 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.

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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 through 5. 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.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
March 27, 2013

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
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
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDS Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Improving Teacher Quality State Grants (CFDA No. 84.367); ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA); and Head Start (CFDA No. 93.600)
Dollar threshold used to distinguish between Type A and Type B programs:	$316,413
Auditee qualified as low-risk auditee?	No

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2011-12 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. For example:

- District personnel did not properly reconcile subsidiary capital asset and depreciation schedules to general ledger control account balances. As a result, on the government-wide financial statements, the District overstated instruction and depreciation/amortization expense by $4,380,000 and $2,720,000, respectively, and understated depreciable capital assets and facilities acquisition and construction expenses by $5,270,000 and $1,830,000, respectively. Also, District personnel did not identify and report accounts payable for certain health insurance claims incurred before, and paid after, June 30, 2012, resulting in understated health insurance claims expenses and accounts payable of $1,926,678.82 each in the Internal Service Funds. Misreporting account balances and related transactions such as these may cause financial statement users to incorrectly assess the District's financial position and insurance program activities.
- Generally accepted accounting principles 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. Information about the concentration of credit risk associated with District investments should be disclosed, by amount and issuer, when investments in any one issuer represent 5 percent or more of total investments. However, the District omitted the investment note disclosure for concentration of credit risk for $2,223,000 invested in Fannie Mae Subordinated Benchmark Notes, which represent approximately 41 percent of the investments reported in the Debt Service – Other Fund. When investment information is not properly disclosed, financial statement users may misunderstand the District's investment risks.
- As discussed in Federal Awards Finding No. 5, the District inadvertently excluded certain Federal expenditures from its Schedule of Expenditures of Federal Awards (SEFA), such as the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, a major Federal program, with expenditures totaling $359,056.

We extended our audit procedures to determine the revisions necessary to properly report information on the District's financial statements and SEFA, and District personnel accepted these revisions. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances, transactions, and note disclosures, and expenditure amounts on the SEFA, are properly reported.

ADDITIONAL MATTERS

Finding No. 2: Financial Condition

In governmental funds, nonspendable, restricted, and committed accounts are used to indicate the portion of fund balance that is limited for specific purposes and not available for general appropriation by the Board, while the assigned and unassigned fund balance accounts are designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions represent the amount to be used with the most flexibility for emergencies and unforeseen situations.

Section 1011.051, Florida Statutes, requires that the District maintain a General Fund ending fund balance that is sufficient to address normal contingencies. If at any time the portion of the General Fund's ending fund balance not classified as restricted, committed, or nonspendable (i.e., the total assigned and unassigned fund balances) in the District's approved operating budget as a percent of General Fund total revenue (i.e., financial condition ratio) is projected to fall below 3 percent during the fiscal year, the Superintendent must provide written notification to the Board and the Florida Department of Education (FDOE). Further, if at any time the financial condition ratio is projected to fall below 2 percent, the Board should have a reasonable plan to avoid a financial emergency, or the FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency. Also, Section 218.503(3), Florida Statutes, provides that the FDOE may determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition.

The assigned and unassigned fund balance in the District's General Fund totaled $4,145,064 at June 30, 2012, which represents 5.5 percent of General Fund revenues. However, the District's General Fund assigned and unassigned fund balances may be further reduced to below 3 percent as a result of the following::

- As discussed in Finding No. 6, the District experienced a continued reduction in the net asset balance of the Workers' Compensation/General Liability Internal Service Fund during the 2011-12 fiscal year, resulting in a deficit net assets balance of $1,901,332 at June 30, 2012. Consequently, during the 2012-13 fiscal year, additional Board contributions from the General Fund are planned to reverse the decline of the financial position of the Workers' Compensation/General Liability Internal Service Fund and restore the net asset balance to a positive financial position.
- The District accounts for its group health self-insurance program in an internal service fund. In February 2013, the Board's insurance consultants provided District administrative personnel with a financial update of the health self-insurance program through December 2012. The consultants indicated that they do not expect the plan to have enough assets to meet the Office of Insurance Regulations (OIR) safe harbor surplus threshold of two months of claims, and project the fund to decline $900,000 to $1,000,000 under the safe harbor threshold at December 2012. Additional funding of the health self-insurance program through Board premium contributions from the General Fund may be necessary to restore the assets of the program to the safe harbor threshold required by the OIR.

- Absent documentation to demonstrate the allowability of certain Federal expenditures, Federal grantors may disallow questioned costs of $651,902.42 as noted below:

Audit Finding Reference	Finding Number(s)	Questioned Costs
Previous Audit Report Numbers:		
2009-209 - Federal Awards Finding	1	$ 31,483.16
2010-181 - Federal Awards Finding	1 and 2	122,593.94
2011-170 - Federal Awards Finding	1 through 3	425,163.31
2012-170 - Federal Awards Finding	2	2,072.90
Current Audit Report Findings:		
Federal Awards Finding	1	36,793.40
Federal Awards Finding	2	18,475.34
Federal Awards Finding	3	14,382.37
Federal Awards Finding	4	938.00
Total		$ 651,902.42

If the above questioned costs and additional Board premium contributions are required for the District's health and workers' compensation self-insurance programs, the District could have significantly less resources available for emergencies and unforeseen situations. A similar finding was noted in our report No. 2012-170.

Recommendation: The Board and the Superintendent should closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance continues to be maintained in the General Fund.

Finding No. 3: Board Minutes

Section 286.011, Florida Statutes, commonly referred to as the Sunshine Law, requires the District to promptly record the minutes of all Board meetings for public inspection. Section 1001.42(1), Florida Statutes, requires the Board to review and approve minutes for each Board meeting at the next regular meeting, and to keep minutes as a public record in a permanent location to set forth clearly all Board actions and proceedings.

During the 2011-12 fiscal year, the Board held and prepared minutes for 26 public meetings, of which the minutes of 18 Board meetings were not approved until 21 to 126 days, or an average of 74 days, after the next regular meeting. In addition, after Board review and approval of the minutes presented in the agenda file of each meeting, the approved minutes for 17 meetings were not posted to the permanent location on the District's Web site until 45 to 204 days, or an average of 141 days, after approval. The Board meeting minutes for the regular meeting of January 24, 2012, had not been posted to the permanent location of the District's Web site as of February 07, 2013. Without the timely approval and posting to the permanent location on the District's web site, public access to official actions taken at such meetings may be limited.

Recommendation: The District should enhance its procedures to ensure that minutes of Board meetings are appropriately maintained and timely approved.

Finding No. 4: Debt Administration

In June 2010, the Board entered into a financing agreement, pursuant to the Qualified School Construction Bond (QSCB) program, for $36,000,000 to finance the construction of a new middle school. The QSCB program was established by the American Recovery and Reinvestment Act of 2009 to provide a taxable obligation to be issued by the District with a Federal subsidy for interest. The Series 2010A Certificates of Participation were issued as direct pay bonds whereby the District pays interest of 5.70 percent and receives a 5.49 percent interest subsidy paid directly to the District by the United States Treasury. Pursuant to the terms of a trust agreement between the District and the trustee bank, and a master lease referred to in the trust agreement, the District is required to make annual payments of $2,117,647, which are to be deposited with the trustee and invested in accordance with a trust agreement until maturity and, when combined with interest earnings, will be sufficient to pay the principal balance in full at maturity on June 1, 2027.

Pursuant to Section 8.1(a) of the master lease, an event of default includes "Failure by the School Board to pay in full any basic lease payment with respect to any lease at the time and in the manner specified herein." Article V, Section 504, of the trust agreement provides that upon default by the Board, "… the trustee, with the consent or at the direction of each credit facility issuer insuring the series of certificates, and upon receipt of indemnity, is entitled to enforce the rights and exercise the remedies provided in the master lease as appropriate."

On August 24, 2012, the District made its annual principal payment of $2,117,647. Based on the December 1, 2011, payment due date per the master lease, the principal payment was made 267 days late. However, the December 1, 2011, due date was in conflict with the payment due date provided for in the Certificate as to Arbitrage and Certain Other Tax Matters (Tax Certificate) and the final cash flows schedule, which indicate a June 1, 2012, payment due date, in which case the principal payment would have been made 84 days late. According to a letter from the trustee bank dated March 4, 2013, to the Board, the December 1, 2011, due date is correct based on the bond documents; however, District personnel informed us that the District's bond counsel and financial advisor believe the June 1, 2012, due date to be correct. The existence of conflicting due dates increases the risk of late payments.

District personnel indicated that the payment was not timely made because they had not received an invoice for payment or notice of default from the trustee bank and that it was not necessary for the trustee bank to exercise the remedies provided in the master trust agreement since the District subsequently made the payment. Although the trustee bank did not choose to enforce the remedies of default, failure to make timely debt payments may impact the District's ability to secure future borrowing and exposes the District to possible trustee actions pursuant to the master lease.

Recommendation: The District should enhance its debt administration procedures to ensure that all debt payments are made timely. The District should also take appropriate action to resolve the conflicting payment due dates.

Finding No. 5: Fund Balance Reporting

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital projects. The District initially reported restricted fund balance of $4,963,000 in a capital projects fund for resources from hurricane damage reimbursements of $1,114,000 and real property sales of $3,849,000. District personnel indicated that the resources from the hurricane damage reimbursements and real property sales were to be used for District capital outlay projects and that $2,610,000 of the amount from real property sales had been budgeted for the Horace O'Bryant School construction project. Further, District personnel indicated that resources from the real property sales were restricted in the capital projects fund because the FDOE required that these proceeds be used for capital outlay purposes.

While the FDOE recommended in its *Guidelines for Educational Facilities* (2007) that real property sales be reported in capital projects funds, the current version of the *State Requirements for Educational Facilities* (2007) does not require this reporting. In addition, neither the District's five-year capital outlay work plan nor other District records evidenced the specific capital outlay purposes for which these resources were restricted.

We extended our audit procedures to reclassify these unrestricted resources from restricted to assigned fund balance, and District personnel accepted these reclassifications. Absent externally imposed constraints that require the uses of the resources for specific purposes, the basis upon which these resources were initially reported as restricted is not readily apparent and financial statement users may misunderstand the Board's intent regarding fund balances reported in the capital projects funds.

Recommendation: The District should disclose in its records the intended use of the unrestricted resources of $4,963,000 in the capital projects fund. If the intended use is not for capital outlay purposes, the District should transfer that amount to the General Fund.

Finding No. 6: Net Asset Deficit – Worker's Compensation/General Liability Internal Service Fund

The District's self-insurance program provides property and casualty, including workers' compensation, insurance coverage. Risk is retained by the District up to specified limits, and agreements were entered with various insurance companies to provide coverage of individual claim expenses above specific and aggregate limits when total claims exceed such limits. To administer the self-insurance program, the District contracted with an insurance administrator to process, investigate, and pay claims and contributed specified premium amounts to the program on a monthly basis. Premium contributions, along with claims payments and other expenses of the self-insurance program, are accounted for in an internal service fund.

During the 2011-12 fiscal year, the District's Workers' Compensation/General Liability Insurance Internal Service Fund unrestricted net asset balance declined $920,054, from a deficit balance of $981,278 to a deficit balance of $1,901,332. District personnel indicated that this reduction was caused, in part, by higher claims expenses and a significant increase in the actuarially determined estimated liability for claims payable at June 30, 2012. A summary of the unrestricted net asset balance of the District's Workers' Compensation/General Liability Internal Service Fund for the past six fiscal years is shown below:

Fiscal Year Ended June 30	Unrestricted Net Asset Balances
2007	$1,196,076
2008	281,410
2009	152,522
2010	(615,306)
2011	(981,278)
2012	(1,901,332)

Failure to reverse the decline of the financial position of the District's Workers' Compensation/General Liability Internal Service Fund could result in the District having insufficient resources available for unexpected claims of the self-insurance program.

For the 2012-13 fiscal year, the District increased the workers' compensation Board contribution rate from 2.6 percent to 4.7 percent of salaries. As a result of the increased Board contributions, the District's 2012-13 fiscal year budget indicates that the net assets of the Workers' Compensation/General Liability Insurance Internal Service Fund should increase to a deficit of $266,758. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should continue its efforts toward eliminating the net asset deficit of the internal service fund and ensure that a favorable net asset balance is maintained to meet the fiscal demands of the self-insurance program.

Finding No. 7: Ad Valorem Taxation

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

For the 2011-12 fiscal year, the District reported LCI Fund expenditures and transfers to the General Fund totaling $2,053,968.36 and $3,606,904.12, respectively. Our tests disclosed $90,190.60 of LCI Fund transfers to the General Fund for groundskeeping functions, such as lawn services and repair of lawn equipment, contrary to Section 1011.71, Florida Statutes. In response to our inquiries, District personnel indicated that they were unaware that groundskeeping was not considered maintenance and repairs and provided documentation that other allowable expenditures totaling $81,638.12 for maintenance, repair, and renovation of educational facilities were available in the General Fund to offset the $90,190.60 in unallowable expenditures, resulting in $8,552.48 of questioned costs. Without adequate controls to ensure that District records evidence that ad valorem tax levy proceeds are expended for authorized purposes, the risk is increased that the District will violate applicable expenditure restrictions.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are expended only for authorized purposes. The District should also document to the FDOE the allowability of the $8,552.48 of questioned costs or restore this amount to the LCI Fund.

Finding No. 8: Adult General Education Classes

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

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 138,334 adult general education instructional contact hours for 784 students enrolled in 276 classes. Our review of 1,113 hours reported to the FDOE for 10 students enrolled in 33 classes disclosed that the District allowed students to enroll in different classes that were scheduled to meet at the same time, resulting in 369 hours overreported for classes unattended by 6 students.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the District submit accurate data.

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours overreported and contact the FDOE for proper resolution.

Finding No. 9: Property Insurance

Section 1001.42(11)(d), Florida Statutes, authorizes the Board to carry insurance on District school buildings, including contents, boilers, and machinery. Section 1001.42(12)(k), Florida Statutes, requires the Board to provide adequate protection against any loss or damage to school property. The Board has attempted to fulfill this responsibility by self-insuring up to specified limits of coverage and using insurance companies to provide specific excess insurance coverage above stated amounts for individual and aggregate claims.

The District estimated the replacement values for its property and contents for its 12 schools and other facilities to be $313 million at March 1, 2012. The District's excess insurance for wind coverage had a wind loss limit of only $2.5 million per named windstorm after a deductible of 5 percent of the total insured values per location subject to a minimum deductible of $10 million per occurrence. Such coverage potentially exposes the District to significant out-of-pocket costs in the event of a loss. For example, if the District incurred a $29 million loss on property with an insured replacement cost of $100 million as a result of a single named windstorm, it would incur out of pocket costs of $26.5 million after recovering $2.5 million from insurance.

Although the District anticipates Federal and State assistance in the event of such a loss, it has not developed an action plan to expedite replacement or repair of the property loss while it waits for Federal and State assistance. Without an action plan that identifies financing resources for property loss replacement or repairs, the District could potentially experience financial strain while trying to meet its current obligations after incurring such a loss. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should develop a formal action plan that identifies resources that it can use to cover uninsured losses resulting from a named windstorm.

Finding No. 10: Payroll Processing – Time Records

The District paid contracted employees on a payroll by exception basis in which employees received their regular pay each period, unless employees used more leave than accumulated, resulting in a reduction to their salary. Employees are required to prepare and sign leave forms that supervisors reviewed and approved or disapproved. School and department personnel input leave taken into the payroll system for contracted employees and the number of hours worked by employees who are paid on an hourly basis. School principals or department supervisors approve biweekly payroll reports, generated by the payroll system, that reflected employee time worked and leave taken. However, the District needed to enhance its procedures for documenting employee time worked, as discussed below.

District payroll procedures did not provide for a uniform method of documenting actual time worked by contracted employees. Methods used at District schools and departments for documenting time worked by contracted employees included: (1) recording arrival and departure times on timesheets; (2) sign-in and sign-out timesheets without times or total hours worked; (3) at one school, daily sign-in/out time sheets were not maintained (instead, a sign-out sheet was used to record the dates and times that employees would leave and return to school during the workday); and (4) machine date and time stamped employee time cards. The District's payroll procedures for employees who were paid on an hourly basis provided that time records, such as time cards or weekly timesheets, be used to document time worked. Our test of one payroll period for each of 25 employees disclosed the following:

- Time records for 9 employees did not include arrival and departure times or other evidence to indicate the number of hours worked. In addition, the time records for 13 employees were not signed by the employee and for 20 employees the time records did not include the signature of employee's supervisor or other evidence of review and approval.
- The April 16, through May 18, 2012, Glynn Archer Elementary School daily attendance record (faculty sign-in sheet listing employee initials for arrival and departure times) for 1 employee indicated that the employee worked on April 30, and May 1, 2012; however, payroll leave records and the employee's approved request for leave form shows that the employee was on leave for those two days. The Glynn Archer Elementary School's faculty sign-in sheet for the period April 16 through May 18, 2012, included the daily attendance record for 27 of the school's employees. We expanded our tests to compare the daily attendance reported on the faculty sign-in sheet to payroll leave records and request for leave forms for the other 26 employees. For 3 other employees, the faculty sign-in sheet indicated attendance on a day that payroll leave records and approved request for leave forms showed the employees were on leave.

Further, the District allowed teachers to use planning time for after school activity instruction during their standard workday, and the teachers were required to work extra time to compensate for planning time used for after school activity instruction. To determine the propriety of expenditures for after school activity instruction and that extra work time was properly documented, we selected salary payments to 42 teachers and 42 other school employees for after school activity instruction at six schools. We reviewed employee timesheets and compared the reported times worked to the required work times for their standard school workday and to available records documenting extra time worked, and noted that District records did not evidence that 10 teachers and 4 other school employees worked the extra time to compensate for after school activity instruction totaling 34 hours during the standard workday. The 10 teachers and 4 other school employees were paid a total of $938 for salary and benefits from the Twenty-First Century Federal grant program for after school instruction during times that overlapped with the standard school workday.

Without payroll records and procedures that provide for a uniform method of documenting actual time worked, including arrival and departure times, and when work attendance is not adequately evidenced and timely verified of record, the risk increases that employees may be incorrectly compensated. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should enhance its payroll processing procedures to ensure that all employee work time is appropriately documented and approved, accurately recorded, and not in conflict with other employment.

Finding No. 11: Direct-Support Organization Audit

Pursuant to Section 1001.453, Florida Statutes, a school board direct-support organization (DSO) must be a Florida nonprofit organization, approved by the Board to operate exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of District school and adult career and community education programs. A school board is authorized to permit a DSO to use District property, facilities, and personal services. In addition, Section 1001.43(5), Florida Statutes, allows community use of school facilities, and Board policy requires the Board to enter into rental agreements to allow use of facilities. Such agreements typically establish the facility use fees and liability insurance responsibilities of the organizations that use District facilities.

Pursuant to Section 1001.453(4), Florida Statutes, a school board DSO must annually provide for a financial audit by an independent certified public accountant when the DSO has expenditures or expenses that exceed $100,000, and such audits must be performed in accordance with rules adopted by the Auditor General. Section 10.720(1)(g), Rules of the Auditor General, requires that such audits be performed in accordance with *Government Auditing Standards* (*GAS*) issued by the Comptroller General of the United States. *GAS* require auditors to report on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements; maintain additional continuing education requirements; obtain a peer review of their system of quality control at least once every three years; and communicate to officials at the audit entity violations of provisions of contracts or grant agreements, abuse, fraud, and illegal acts.

District records indicated that the Monroe County Education Foundation, Inc. (MCEF), a Florida nonprofit corporation organized to promote academic excellence in public education and enhance the education of students in Monroe County, was permitted to use property, facilities, and personal services of the District. District records disclosed that the Board approved the MCEF as a DSO in April 1996; however, District personnel and the MCEF president indicated that the MCEF was no longer considered to be a DSO since the MCEF's board had changed its by-laws and took steps to limit the District's control over its operation. Although requested from District personnel, we were not provided with documentation showing that the Board had rescinded its approval of the MCEF as a DSO. Further, if the MCEF was no longer considered to be a DSO, it was not apparent why during the 2011-12 fiscal year, according to District records, the District provided the MCEF with unreimbursed personal services for the MCEF's Take Stock in Children Program totaling $170,476 and, at no cost to the MCEF, the use of District facilities, information technology support, and property.

An audit report of the MCEF by a firm of certified public accountants disclosed that the fair value of District provided (donated) personal services, use of facilities, and supplies during the 2009-10 and 2010-11 fiscal years totaled $113,435 and $46,916, respectively. Although the MCEF had expenses totaling $573,344 and $682,691 for the 2009-10 and 2010-11 fiscal years, respectively, and obtained audits performed by a CPA, the CPA did not perform the audit in accordance with GAS, contrary to Chapter 10.700, Rules of the Auditor General. As of February 19, 2013, the audit report for the MCEF's 2011-12 fiscal year audit (due by March 31, 2013) had not been received by the District.

Recommendation: The Board should document in its official records the basis upon which the MCEF is no longer a DSO. If the MCEF is not a DSO, the Board should discontinue providing personal services and other resources to the MCEF at no cost and enter into an agreement with the MCEF for the use of District facilities. However, if the MCEF is a DSO, the Board should require that the MCEF's annual audit be performed in accordance with *Government Auditing Standards*.

Finding No. 12: Cash Collections – After School Day Care

The District operated a fee-supported, school-age child care program that provided after school care at seven schools, and reported $463,569 of program fee collections for the 2011-12 fiscal year. Our review of internal controls over after school day care collections at two elementary schools disclosed that although District personnel advised us that they had performed independent fee audits of the schools comparing fees assessed based on attendance records with recorded fee collections and deposits, District records did not evidence that fee audits were performed and the results evaluated. Without a documented evaluation of fee audit results and a determination of whether action was necessary to resolve discrepancies noted, there is an increased risk of intentional or unintentional loss of collections. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should document the performance and results of fee audits.

Finding No. 13: Motor Vehicles

As of June 30, 2012, District records indicated that there were 170 District-owned vehicles, including 63 buses and 107 other vehicles including cars, trucks, and vans. Board Policy 1440C *Use of School Vehicle for School Business* requires vehicle mileage be recorded on a weekly basis, and departments maintain daily usage logs. Our review of logs for 10 vehicles disclosed no evidence of supervisory review of six vehicles logs, no documented official purpose on the logs for one vehicle, and one day that a vehicle was driven when the assigned driver was absent.

Without complete and accurate information on vehicle usage logs and supervisory review, there is an increased risk that District-owned vehicles may be used for unauthorized purposes.

Recommendation: The District should enhance its procedures to ensure that District-owned vehicle logs are properly maintained and reviewed.

Finding No. 14: Construction Contract - Change Orders

Section 1013.48, Florida Statutes, allows the Board, at its option and by written policy duly adopted and entered in its official minutes, to authorize the Superintendent or other designated individual to approve change orders in the name of the Board for preestablished amounts. Approvals must be for the purpose of expediting the work in progress and reported to the Board and entered in its official minutes.

Board Policy 6345 – *Change Orders* provides that the Superintendent or the Superintendent's facility designee is authorized to approve each construction contract change order to decrease or increase the construction contract amount by $25,000 or less, provided such approval is in the best interest of the Board and entered in the Board minutes at the next regular Board meeting for action thereon.

During the 2011-12 fiscal year, the Superintendent approved 34 change orders for the Horace O'Bryant School construction project, of which 22 increased the construction contract by a total of $1,050,159, and 12 change orders decreased the construction contract by a total of $2,770,833. While the Board approved a change order increasing the contract by $300,000 and another change order by $400,000, the Board did not approve the remaining 32 change orders totaling $3,120,992. Without Board approval of change orders, the risk increases that revisions to construction projects may not be consistent with Board intent.

Recommendation: The District should enhance its procedures to ensure that all change orders are approved by the Board.

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 Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $36,793.40

Period of Availability. Title 34, Section 80.23, Code of Federal Regulations (CFR), provides that where a funding period is specified in a Federal award, a grantee may charge to the award only costs resulting from obligations incurred during the funding period. The District received Title I, School Improvement Grant funds, totaling $159,976 with a grant period from September 2, 2011, to September 30, 2012. The District used proceeds from the grant totaling $42,364.31 to purchase reading intervention program subscriptions and on-site service for the period August 13, 2012, to August 13, 2013.

District personnel indicated that the subscription would cost the District much more if they waited until the 2012-13 fiscal year to make the purchase. However, the period of availability for the grant ended September 30, 2012, resulting in questioned costs of $36,793.40 for the period October 1, 2012, through August 12, 2013, which are subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that Federal grant expenditures are only incurred within the period of availability. In addition, the District should document to the grantor (FDOE) the allowability of the $36,793.40 of questioned costs or restore this amount to the Title I program.

District Contact Person: Ken Gentile, Director of Finance and Performance

Federal Awards Finding No. 2:
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: CFDA No. 84.010: $16,046.54 and CFDA No. 84.389-ARRA: $2,428.80

Eligibility - Title I Allocations. Title 34, Section 200.78, CFR, requires the District to allocate Title I schoolwide program funds to schools identified as eligible and selected to participate, in rank order, on the basis of the total number of children from low income families in each school. The District is not required to allocate the same per pupil amount to each participating school attendance area or school provided that it allocates higher per pupil amounts to areas or schools with higher concentrations of poverty than to areas or schools with lower concentrations of poverty. Additionally, Title 20, Section 6313(a), United States Code, requires the District to serve those schools above the 75 percent poverty level, including middle or high schools, without regard to grade span, before it serves any with a poverty percentage below 75 percent.

As part of our audit tests, we requested that the District provide documentation evidencing that the budget was properly allocated to the respective schools as required. The District provided copies of the final budget allocations posted to the District's accounting records; however, budget amendments were made during the year without regard to the schools rank order based upon the number of children from low income families. As a result, amounts were not allocated to the District's schools in rank order based upon the number of children from low income families, as follows:

Federal Program/ School	Final Budget Allocation	Number of Low Income Students (A)	Percentage of Low Income Students	Ranking Based on Percentage of Low Income Students	Title I Per Pupil Allocation	Ranking Based on Per Pupil Allocation	Per Pupil Allocation Above #1 Ranked School (B)	Questioned Costs (A) X (B)
Title I (CFDA No. 84.010)								
Glynn Archer Elementary	$ 134,005.65	212	80.61%	1	$ 632.10	2		
Gerald Adams Elementary	216,422.52	317	73.72%	2	682.72	1	$ 50.62	$ 16,046.54
Stanley Switlik Elementary	187,070.21	304	62.55%	3	615.36	3		
Key Largo Elementary/Middle	208,655.71	457	51.87%	4	456.58	4		
Poinciana Elementary	126,022.89	280	46.13%	5	450.08	5		
Title I Totals	$ 872,176.98	1570						$ 16,046.54
Title I-ARRA (CFDA No. 84.389)								
Glynn Archer Elementary	$ 6,058.78	212	80.61%	1	28.58	3		
Gerald Adams Elementary	8,024.48	317	73.72%	2	25.31	4		
Stanley Switlik Elementary	8,916.42	304	62.55%	3	29.33	2	0.75	$ 228.00
Key Largo Elementary/Middle	9,748.58	457	51.87%	4	21.33	5		
Poinciana Elementary	10,204.25	280	46.13%	5	36.44	1	7.86	2,200.80
Title I - ARRA Totals	$ 42,952.51	1570						$ 2,428.80
Total Questioned Costs								$ 18,475.34

In the above described circumstances, resources were not allocated to the schools in rank order of need, and amounts totaling $18,475.34 represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance procedures to ensure that Title I schoolwide program resources are properly allocated to schools. The District should also document to the grantor (FDOE) the allowability of the $18,475.34 of questioned costs and how Title I schoolwide program resources were used at the schools with the greatest needs, or restore this amount to the applicable Title I programs.

District Contact Person: Michael Kinneer, Chief Operating Officer

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $14,382.37

Allowable Costs/Costs Principles – Documentation of Time and Effort. United States Office of Management and Budget (OMB) Circular A-87 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 cost activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

For the 2011-12 fiscal year, the District reported total Race-to-the-Top (RT) program salary and benefit expenditures of $119,893, of which $58,040 represented the salary and benefit expenditures of three employees tested who were paid partially or wholly from the RT program. The District did not maintain personnel activity reports or equivalent documentation to support $9,530.32 in salaries and benefits paid to one of the three employees tested, a teacher who worked 35 percent for the program from August 2011 through December 2011. We extended our procedures to obtain confirmation from the employee's supervisor that the respective salary charges were proper.

In addition, the program paid salaries and benefits totaling $28,847.72 for an assistant principal/teacher and a teacher/reading coach for working approximately 50 percent and 38 percent, respectively, as international baccalaureate (IB) coordinators for the program from January 2012 through June 2012; however, the FDOE approved an amendment to the program to discontinue the IB program in December 2011. Although the IB coordinator positions were discontinued, supervisory personnel confirmed that the assistant principal/teacher performed other duties and responsibilities for the program from January 2012 through June 2012, that supported the employee's salary and benefits charges. However, the personnel activity reports of the teacher/reading coach disclosed that no work was performed for the program from January 2012 through June 2012. As such, payments made to that employee totaling $14,382.37 from the RT program, represent questioned costs subject to disallowance by the grantor.

Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that employees who perform services for Federal programs maintain the required documentation to support salary and benefit expenditures. In addition, the District should document to the grantor (FDOE) the allowability of the $14,382.37 of questioned costs or restore this amount to the program.

District Contact Person: Ken Gentile, Director of Finance and Performance

Federal Awards Finding No. 4:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Twenty-First Century Community Learning Centers (CFDA No. 84.287)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $938

Allowable Costs/Costs Principles. OMB Circular A-87, Attachment A, Section C.1, provides, in part, to be allowable under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards, and be adequately documented. Adequate supporting documentation for costs is also necessary for grantees to properly manage and monitor grant operations.

The Twenty-First Century program provides academic enrichment opportunities during nonschool hours for students who are most at risk of academic failure, and students are served in before school, after school, and summer programs. Enrichment programs include early intervention, academic remediation, math and science education, music and art, and recreation. As noted in Finding No. 10, which addresses control deficiencies over payroll time records and employee work schedules, some District employees were paid a total of $938 from Twenty-First Century program funds for work in the before and after-school enrichment programs at times that were during the employees' standard workday. Those payments totaling $938 represent questioned costs subject to disallowance by the grantor. Similar findings were noted in our report Nos. 2011-170 and 2012-170.

Recommendation: The District should enhance its procedures to ensure that salary and benefit expenditures are adequately documented as required by Federal regulations and that employees' work times do not conflict with other work for the District or outside employment. The District should also document to the grantor (FDOE) the allowability of the $938 of questioned costs or restore this amount to the Program.

District Contact Person: Ken Gentile, Director of Finance and Performance

Federal Awards Finding No. 5:
Federal Agency: United States Department of Homeland Security (CFDA No. 97.036)
Pass-Through Entity: Florida Department of Community Affairs (CFDA No. 97.036)
Program: ARRA –Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFD No. 97.036)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Reporting. OMB Circular A-133 requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that contains certain information, such as a list of Federal programs by Federal agency and the total Federal awards expended for each Federal program. OMB Circular A-133 also generally requires the District to obtain compliance audits of major Federal awards at least once every three years for awards with expenditures that equal or exceed $300,000. However, the District inadvertently excluded certain Federal expenditures from its SEFA, such as the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program, a major Federal program, with expenditures of $359,056.

We extended our audit procedures to determine the revisions necessary to properly report the SEFA, and District personnel accepted these revisions. However, our extended audit procedures cannot substitute for management's responsibility to implement controls over financial reporting. Without procedures to accurately report Federal program expenditures, the risk increases that major Federal programs may not be audited, contrary to Federal requirements, and costs associated with those programs may be subject to disallowance by the grantors.

Recommendation: The District should improve its financial reporting procedures to ensure the accuracy of the SEFA.

District Contact Person: Ken Gentile, Director of Finance and Performance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-170. The following table provides information on the District's recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-170, Finding No. 1	Audit Report No. 2011-170, Finding No. 1
2	Audit Report No. 2012-170, Finding No. 2	NA
6	Audit Report No. 2012-170, Finding No. 13	Audit Report No. 2011-170, Finding No. 14
9	Audit Report No. 2012-170, Finding No. 12	Audit Report No. 2011-170, Finding No. 13
10	Audit Report No. 2012-170, Finding No. 11	Audit Report No. 2011-170, Finding No. 2
12	Audit Report No. 2012-170, Finding No. 10	Audit Report No. 2011-170, Finding No. 11
Federal Awards Finding No. 4	Audit Report No. 2012-170, Federal Awards Finding No. 2	Audit Report No. 2011-170, Federal Awards Finding No. 2

NA – Not Applicable

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

MONROE COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2009-209 (1)	Adult Education - Basic Grants to States (CFDA No. 84.002); Career and Technical Education - Basic Grants to States (CFDA No. 84.048); and Tech-Prep Education (CFDA No. 84.243) - Allowable Costs/Cost Principles.	The District records did not evidence the basis or authority for certain costs, resulting in questioned costs totaling $31,483.16 (CFDA No. 84.002 - $12,688.46 for the 2007-08 fiscal year, and $12,645.73 for the 2008-09 fiscal year; CFDA No. 84.048 - $5,608.80; and CFDA No. 84.243 - $540.17).	Partially corrected.	District is implementing controls to adminster outstanding grants in compliance. The grantor has not yet made a determination regarding restoration of questioned costs.
2010-181 (1) 2011-170 (2) 2012-170 (2)	Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Twenty-First Century Community Learning Centers (CFDA No. 84.287); and Improving Teaching Quality State Grants (CFDA No. 84.367) - Allowable Costs/Cost Principles.	Controls over charges to Federal programs could be improved to help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities. Lack of adequate monitoring over these programs resulted in fiscal year 2008-09 questioned costs of $111,312.94 (CFDA No. 84.002 - $19,784.94; CFDA No. 84.010 - $88,873, and CFDA No. 84.367 - $2,655), fiscal year 2009-10 fiscal year questioned costs of $29,440.50 (CFDA No. 84.010 - $23,140 and CFDA No. 84.287 - $6,300.50), and fiscal year 2010-11 questioned costs of $2,072.90 (CFDA No. 84.010 - $1,310.40 and CFDA No. 84.287 - $762.50).	Not corrected.	District is implementing controls to monitor grant activities. The Twenty-First Century Community Learning Centers grant is no longer in place as of July 2012. The grantor has not yet made a determination regarding restoration of questioned costs.
2010-181 (2) 2011-170 (3) 2012-170 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Adult Education – Basic Grants to States (CFDA No. 84.002); Education for Homeless Children and Youth (CFDA No. 84.196); and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles – Documentation of Time and Effort.	Procedures could be improved to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives. Unsupported payroll expenditures resulted in questioned costs of $11,281 (CFDA No. 84.002) for the 2008-09 fiscal year and $84,015 (CFDA No. 84.196 - $17,433 and CFDA No. 84.287 - $66,582) for the 2009-10 fiscal year.	Not corrected.	Management will develop controls to ensure payroll expenditures are properly separated and reported. The grantor has not yet made a determination regrding restoration of questioned costs.
2010-181 (4) 2011-170 (1)	Special Education Cluster (CFDA Nos. 84.027 and 84.391) - Matching, Level of Effort, Earmarking – Early Intervention Earmark.	Procedures could be enhanced to ensure charges to the Special Education program for early intervention services are properly supported, resulting in questioned costs of $311,707.81 for the 2009-10 fiscal year.	Partially corrected.	Procedures and processes will be enhanced to ensure charges are properly supported during the budget cycle and throughout the year. The grantor has not yet made a determination regarding restoration of questioned costs.
2011-170 (6) 2012-170 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010), Special Education Cluster (CFDA Nos. 84.027 and 84.173), and Head Start Cluster (CFDA Nos. 93.600 and 93.708) - Equipment Management.	Procedures should be enhanced to provide adequate control over tangible personal property purchased with Federal funds.	Corrected.	Controls have been updated and modified to include scheduled audits of school sites and to review coding of purchases.

EXHIBIT A
MANAGEMENT'S RESPONSE

MARK T. PORTER
Superintendent of Schools

New Beginnings...High Expectations

Constant Improvement

March 27, 2013

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

Subject: Auditor General Preliminary & Tentative Audit Findings for FY Ended June 30, 2012

Dear Mr. Martin:

Attached please find Management responses to the 2011-2012 Audit Findings. Please note that a Corrective Action Plan, along with new instituted procedures is included in the Management responses.

I would like to thank the Auditor General's staff for the professional meaner in which the audit was conducted.

Sincerely,

Mr. Mark Porter
Superintendent of Schools

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that transactions and note disclosures are properly reported.

Agree:

Year-end annual financial reporting is part of a broad process of financial reporting and reconciliations that must occur throughout the year. Monthly reconciliations of accounts and accruals have not been performed on a regular basis. In the past two years, outside consultants have helped prepare the annual financial report (AFR); however, the process has been limited under a very tight time frame due to a lack of review procedures throughout the year. We concur with the Auditor General's recommendations that procedures can be improved to help ensure issues and events identified throughout the year should be captured, disclosed and reported at year end.

The district took measures in FY 2013 to help strengthen the Finance Department. The District hired an additional staff accountant in September 2012 and a Finance Director in December 2012.

The annual financial reporting is complex and requires time to prepare and review prior to release to the public and the state. For this reason the Finance Department will begin the annual financial reporting process earlier in the year.

Monthly financial reconciliations, timely identification of financial issues and reportable events and documentation of procedures will be performed to help in the preparation of the AFR for the 2013 year end close.

Status: In process.

ADDITIONAL MATTERS

Finding No. 2: The District's General Fund financial condition may be further reduced by payments of questioned costs and additional Board premium contributions for the District's health and workers' compensation self-insurance programs, resulting in significantly less resources for emergencies and unforeseen situations.

Agree:

Reductions in revenue over the past 5 years have resulted in cuts in expenses of over $15MM. The current 2013 fiscal year expense budget has held throughout the year at $79.5MM. For the first time in three years, there has not been a mid-year degradation of the fund balance. While this is a major improvement it does not mean that the financial condition of the district is yet sound enough to handle emergencies and unforeseen conditions. Careful management of expenditures and conservative budgeting is still the order of the day and will proceed as a financial discipline of the District.

As of 7/1/12, workers compensation contribution rates were increased to 4.7 percent. Contributions at higher rates will continue until a reserve is adequately funded. In addition to the higher contribution rates, the Risk Management department has taken a more assertive role in settling outstanding claims. Finally, the outsourcing of the custodian group should also lower the rate of claims incidents. As of 12/31/12, the net asset balance was a deficit of 1.3MM or a recovery of $600K. We expect this trend to continue through year end.

In FY 2013, health care contributions were adjusted as part of an overall budget reduction for retirees over 65. In addition, a second choice of a less robust health care plan was offered which pushed more expenses on the employees in the form of higher co-pays and deductibles. These savings were offset by a 10% increase in health care premiums. As of 12/31/12 the health care reserve increased to almost $1.5MM representing a

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

$400K recovery. There are still two outstanding recoveries that are under review. The District plans to fund any shortfall in the reserve to meet the OIR requirement.

Historical questioned costs remain an outstanding risk to the district that will have to be addressed as part of the budget process but currently remain unfunded.

Overall, the budget process is being closely monitored throughout the year with monthly reports sent to the school board. The budget amendment process was updated and approved by the school board with all budget amendments reported and approved monthly.

Status: Ongoing.

Finding No. 3: District procedures did not always ensure that minutes for meetings were appropriately maintained and timely approved, contrary to the Sunshine Law.

Agree:

School Board minutes are up to date.

Status: Complete.

Finding No. 4: The District's required annual debt payment of $2,117,647 was made late.

Agree:

The District's payment was not due until **6/1/2012** as a result of errors in the loan documents. The invoice was paid in full when received, however the invoice included the interest amount and not the payment into the bond sinking fund. There are two interest payments due a year and both were made on time and according to the invoices received. The nonpayment of the bond sinking fund was detected internally as part of a year-end reconcilement. The bank was notified and payment was made immediately upon invoice. The trustee bank confirmed that there was not technical default in the bond and the funds were adequately segregated. They documented this by memorandum (see Attached).

A new debt schedule and modifications to the loan documents are in process. Interim reconcilement procedures and a revised debt schedule calendar have been implemented in Finance.

Status: Complete.

Finding No.5: The District reported $4,963,000 of unrestricted resources as restricted fund balance in a capital projects fund; however, the amounts had no externally imposed constraints on use and District records did not evidence the specific intended use of the funds.

Agree:

The Administration will analyze the purpose of these funds and present a budget amendment for fund balance calculation to the School Board which is consistent with the intended use.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Status: To be reclassified prior to 6/30/13.

Finding No. 6: The District's Workers' Compensation/General Liability Internal Service Fund unrestricted net asset balance declined $920,054 to a deficit balance of $1,901,332 at June 30, 2012.

Agree:

See response to financial condition above. Deficit balance has been reduced as of 12/31/12 due to measures taken. Plan is to stay on course of contributing to this reserve as part of an overall strategy to strengthen the financial condition of the district.

Status: Ongoing.

Finding No.7: District, records did not always evidence use of ad valorem tax levy proceeds for authorized purposes, resulting in $8,552.48 of questioned costs.

Agree:

The finding questions the funding of grounds-keeping services with capital dollars. The use of capital outlay dollars is reviewed every year. It has been a practice of the district to reimburse the general fund for these dollars for several years.

Status: Review capital use procedures and post adjusting entry (Fund Balance transfer) for $8,552.48 at April School Board meeting.

Finding No. 8: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Agree:

We agree with the accuracy of the finding and will consult with the Florida Department of Education as to the specific reporting requirements. The scheduling of students occurred in a "block" without specific classes assigned. There is a new director in place since July 1, 2012 who is designing a new scheduling process to identify specific class offerings that do not overlap. We will ensure attendance taking is monitored and future reporting is in accordance with Florida Department of Education requirements.

Status: Will review the Florida Department of Education reporting process by 6/30/13

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 9: A formal action plan needs to be established to adequately fund the property self-insurance program for wind damage.

Agree:

The action plan has not been formalized however phases have been discussed with the School Board. This is a repeat finding but given the insurance market it is not uncommon. Last year a reasonableness letter was received from the Office of Insurance Regulation for the first time in several years. The letter is an important step in obtaining FEMA reimbursement. At the February 26 School Board meeting the windstorm level of insurance was renewed at the same rate leading to the likelihood of a second reasonableness letter.

Steps have been taken to investigate, with our financial advisor, the potential for a "contingent" line of credit to pay for the $10MM deductible upon the occurrence of a windstorm event prior to the reimbursement by FEMA. The current issue relates to the tax treatment of the line of credit and its impact on the annual tax anticipation note that is still a requirement for the district. We will continue to work with our financial advisor on this.

Status: Submit formal plan to School Board with line of credit result by 6/30/13.

Finding No.10: Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented and approved, accurately recorded, and not in conflict with other employment.

Agree:

This is a documentation issue which involves ascribing hourly time recording (e.g. timesheets) for a salaried population. In prior years, steps were taken to schedule independent hours in order to minimize overlapping and, where necessary, obtain documentary evidence of made up time. Additional documentation of this make-up time has been given to the Auditor General however the documentation consists of affirmation of made up time and not daily timesheets.

The risk and exposure for this has dramatically decreased. We are currently reviewing a cost effective timesheet process for documenting made up time.

Status: Timesheet process will be developed by 6/30/13.

Finding No.11: The financial audit of a Board-approved direct-support organization (DSO) was not performed in accordance with *Government Auditing Standards*, contrary to Rules of the Auditor General. Although District personnel did not consider the organization to be a DSO, the Board had not rescinded its approval of the organization as a DSO, and the District provided the organization personal services, use of District facilities, and property at no cost, which is permissible only if the organization is a DSO.

Agree:

A memo of understanding was approved at the March 12, 2013 School Board meeting. The District is working with Legal and the Education Foundation in finalizing an agreement.

Status: In Process.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No 12: The District needed to enhance controls over after school day care fees.

Agree:

Audits were conducted in January and the results are under review. The final results need to be communicated to the School first for responses and corrective action and will be reported to the School Board.

Status: To go to the School Board in April meeting.

Finding No.13: Vehicle logs were not always complete, accurate, and reviewed and approved of record by supervisory personnel.

Agree:

Procedures have been revised to include a follow up and escalation step for logs not received by the Transportation Department.

Status: Complete.

Finding No. 14: Controls over the review and approval of construction contract change orders could be improved.

Agree:

This issue was identified early on in the project and has been raised by the Internal Auditor and Audit and Finance Committee. Specifically, the use of emergency change orders according to school board policy has not been followed consistently by three superintendents. The current superintendent is rectifying this issue and formed a committee to review all of the change orders and submit to the School Board for approval.

Status: Committee meeting scheduled for April 2. All change orders will go before the School Board before project completion.

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: The District used School Improvement grant funds for expenditures incurred outside the period of availability, resulting in $36,793.40 of questioned costs.

Agree:

It is common practice to pay for expenses that exceed the term of the grant when such purchases result in a favorable or significant savings to the district and grants are renewed. We will review practice with Florida Department of Education.

Status: Under review.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

MONROE COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Federal Awards Finding No. 2: The District did not properly allocate Title I school-wide program resources to schools in rank order, on the basis of the total number of children from low income families in each school, resulting in $18,475.34 of questioned costs.

Agree:

Due to changes in staffing and assignment, the Title I grant was administered under new oversight mid-year. Changes to dollars allocated to schools based on low income family distribution were not performed. Steps will be taken next year to ensure this process is in place at the beginning of the year during the initial budget formation and throughout the year as required.

Status: Procedures are under review target date 6/30/13.

Federal Awards Finding No. 3: Required documentation to support personnel charges were not always maintained, resulting in $14,382.37 of questioned costs to the Race-to-the-Top Program.

Agree:

The IB program was cancelled mid-year due to budgetary reasons and change in Superintendents. The associated changes were not made to two staff allocations.

Status: We will propose a budget amendment to the School board at the April meeting to correct.

Federal Awards Finding No. 4: Control deficiencies were noted over payroll time records and employee work schedules for some District employees paid from Twenty-First Century Program funds, resulting in $938 of questioned costs.

Agree:

See response in finding number 10.

Status: See status for finding number 10.

Federal Awards Finding No. 5: The District's Schedule of Expenditures of Federal Awards excluded the Disaster Grants – Public Assistance (Presidentially Declared Disasters) Program, a major Federal program, with expenditures of $359,056.

Agree:

See response to finding number 1.

Status: Financial reporting procedures under review.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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CORPORATE TRUST SERVICES

550 West Cypress Creek Road
Suite 380
Fort Lauderdale, FL 33309

March 4, 2013

Monroe County District School Board
Attn: Ken Gentile
241 Trumbo Road
Key West, FL 33040

Re: School Board of Monroe County, FL Certificate of Participation, Series 2010A, (QSCB)

Dear Ken:

U.S. Bank National Association is the trustee for the above referenced certificates and has been provided a copy of the report from the Auditor General of the State of Florida, dated February 20, 2013, addressed to the Monroe County District School Board which contained the following 'finding:'

Finding No. 4: The District's required annual debt payment of $2,117,647, due on December 1, 2011, was made on August 24, 2012, or 267 days late.

This would have been a correct observation based on the bond documents, however, Exhibit B to Schedule 2010A is in conflict with the payment terms stated in the Certificate as to Arbitrage and Certain Other Tax Matters (Tax Certificate) and is also inconsistent with the final cash flows. Please consider the following information:

1. Specifically, Exhibit B displayed the semi-annual Sinking Fund Payments as commencing on 12/1/2010 and recurring annually each 12/1 thereafter. Further, since the maturity date of the Certificates is June 1, 2027, a 12/1 sinking fund date was highly unlikely and should have raised a flag that there was an error in the documents.

The Tax Certificate, however, in paragraph 3(d)(i) states, "Pursuant to the Series 2010A Lease, the Board is required to fund the Series 2010A Sinking Fund Account on each June 1, commencing June 1, 2011…" All other documents s track to the Tax Certificate.

2. The School Board paid in accordance with the terms of the Tax Certificate and only after receiving invoices from the U.S. Bank, as the Trustee.

3. Based on the Terms of the Tax Certificate, the Sinking Fund account is currently funded to the amount anticipated under paragraph 3(d)(i) and no deficiency exists in the account balance.

usbank.com

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

4. The matter of the discrepancy between documents has been forwarded to Nabors, Giblin & Nickerson, Special Counsel to the District; which is currently circulating documents to reconcile the discrepancy between dates. Exhibit B to Schedule 2010A will be modified to reflect Sinking Fund Deposit Dates of 6/1 annually. Based on this change, the next funding date will be for 6/1/2013.

As stated above, because the funds were on hand at the School District and were remitted upon receipt of invoicing for the funding dates stated in the Tax Certificate, the School Board is in compliance with the payment terms of the Tax Certificate and no technical event of default occurred.

Please contact me if you require any additional information.

Very truly yours,

Peter H. Fowler
Vice President

cc: Jerry Ford/Ford & Associates