REPORT NO. 2011-170
MARCH 2011

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MONROE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

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

	District No.
Steven Pribramsky	1
Andy Griffiths, Chair	2
Dr. R. Duncan Mathewson, III	3
John Dick, Vice Chair from 11-17-09	4
Dr. Debra S. Walker, Vice Chair to 11-16-09	5

Michael J. Henriquez, Acting Superintendent to 8-20-09
Dr. Joseph P. Burke, Superintendent from 8-21-09

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

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

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; 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 certain matters involving the District's internal control over financial reporting and its operation that we consider to be a material weakness and significant deficiencies as summarized below.

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

MATERIAL WEAKNESS

Finding No. 1: Improvements were needed in District procedures for ensuring that account balances, transactions, and note disclosures are properly reported on the financial statements.

SIGNIFICANT DEFICIENCIES

Finding No. 2: Payroll processing procedures could be improved to ensure that employee work time is appropriately documented, approved, and paid in accordance with Board intent.

Finding No. 3: Improvements were needed in controls over food service collections.

ADDITIONAL MATTERS

Finding No. 4: The District used capital outlay tax levy moneys for purposes contrary to Section 1011.71, Florida Statutes, resulting in $382,106 of questioned costs.

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

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

Finding No. 7: Controls over capital asset depreciation records could be enhanced.

Finding No. 8: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 9: Improvements were needed to enhance the accountability and control over gasoline and diesel fuel usage.

Finding No. 10: The District could improve its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 11: Controls over after school day care and adult education program fees could be enhanced.

Finding No. 12: The District could enhance procedures to identify employee reimbursements that represent taxable income to the employee, and ensure that such taxable benefits are reported to the Internal Revenue Service.

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

Finding No. 14: The Board had not adopted a formal plan for monitoring the financial condition of the Workers' Compensation / General Liability Internal Service Fund to help ensure that a favorable net asset balance is maintained to meet the fiscal demands of the self-insurance program.

Finding No. 15: The District did not timely remove the information technology (IT) access privileges of some former employees.

Finding No. 16: The District's IT disaster recovery plan had not been tested.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Special Education Cluster; Title I, Part A Cluster; State Fiscal Stabilization Fund Cluster; Twenty-First Community Learning Centers; Head Start Cluster; and Disaster Grants – Public Assistance (Presidentially Declared Disasters) programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, except for the Special Education Cluster. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: The District did not adequately document charges to Special Education programs for coordinated early intervention services, resulting in $311,707.81 of questioned costs.

Federal Awards Finding No. 2: 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, and our audit disclosed $29,440.50 of questioned costs.

Federal Awards Finding No. 3: Procedures could be improved to provide for periodic personnel activity reports for employees who work on multiple activities or cost objectives, and our audit disclosed $84,015 of questioned costs.

Federal Awards Finding No. 4: The District overreimbursed an employee $9,043 for educational expenses from Head Start program funds.

Federal Awards Finding No. 5: Controls could be strengthened to ensure accurate meal counts are reported on monthly claims for reimbursements for the School Breakfast and National School Lunch Programs.

Federal Awards Finding No. 6: Procedures should be enhanced as necessary to provide adequate control over tangible personal property used in Federal programs.

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. 2010-181.**

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2010. We obtained

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

Audit Methodology

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

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AUDITOR GENERAL
STATE OF FLORIDA

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111 West Madison Street
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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 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the 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** (pages 3 through 13) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 58 through 63) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,

David W. Martin, CPA
March 25, 2011

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 $11.4 million (or 5.6 percent).
- Total revenues and other financing sources in all governmental funds exceeded expenditures and other financing uses by $39.5 million. This occurred mainly because of Certificates of Participation (COPS) issued for the construction of a new middle school.
- Capital assets, net of depreciation, decreased by ($0.5 million), to $269.8 million. Contributing factors for the decrease were the deletions (net of depreciation) of $0.6 million, depreciation expense of $6.6 million, and a $4.6 million reduction in accumulated depreciation for capital assets disposed of during the 2008-09 fiscal year. Capital asset additions for the year totaled $2.0 million.
- Capital-related debt increased by $24.3 million because of the COPS issue for the construction of a new middle school.
- The District's financial position remains relatively healthy.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

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

  The Monroe School Board Leasing Corporation (Corporation), although also a legally separate 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.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – ARRA Economic Stimulus Fund, Debt Service – Other Fund, Capital Projects – Capital Improvement Section 1011.71(2) Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund and the Special Revenue – ARRA 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 year to the prior year. As mentioned above, net assets may serve over time as a useful indicator of a government's financial position.

Statement of Net Assets

The District's combined net assets increased 5.6 percent, or $11.4 million, to $215.9 million. Total assets reported were $356.9 million and total liabilities reported were $141.0 million. An increase in net assets is an indication that the District's financial health is improving. Our analysis below focuses on the net assets of the governmental activities.

Table 1
Statement of Net Assets
(In thousands)

	6-30-10	6-30-09	Increase (Decrease)
Current and Other Assets	$ 87,120	$ 41,839	$ 45,281
Capital Assets	269,802	270,331	(529)
Total Assets	356,922	312,170	44,752
Long-Term Liabilities	132,558	104,379	28,179
Other Liabilities	8,433	3,234	5,199
Total Liabilities	140,991	107,613	33,378
Net Assets:			
Invested in Capital Assets - Net of Related Debt	188,382	178,482	9,900
Restricted	34,711	27,259	7,452
Unrestricted Deficit	(7,161)	(1,184)	(5,977)
Total Net Assets	$ 215,932	$ 204,557	$ 11,375

Total Assets. Total assets were $356.9 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 $81.5 million, or 93.6 percent of the current assets of $87.1 million.
- Capital assets totaled $269.8 million, which represents a decrease of $0.5 million from the prior year.

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

	6-30-10	6-30-09	Increase (Decrease)
Land	$ 6,612	$ 6,612	$
Construction in Progress	1,100	-	1,100
Buildings and Improvements	252,921	253,375	(454)
Furniture, Fixtures and Equipment	4,182	4,889	(707)
Motor Vehicles	3,445	3,626	(181)
Property Under Capital Leases	1,310	1,585	(275)
Audio Visual Materials and Computer Software	232	244	(12)
Total	$ 269,802	$ 270,331	$ (529)

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

- Long-term liabilities totaled $132.6 million, of which $116.2 million (Table 3) relates to financing construction projects and the purchase of data processing equipment. The balance of $16.4 million includes $7.7 million for compensated absences, $3.2 million for estimated insurance claims payable, $2.8 million for employee severance benefits payable, and $2.7 million for other postemployment benefits payable.

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

	6-30-10	6-30-09	Increase (Decrease)
State School Bonds Payable	$ 1,220	$ 1,420	$ (200)
Revenue Bonds Payable	61,215	70,265	(9,050)
Obligations Under Capital Leases	643	1,312	(669)
Certificates of Participation Payable	53,117	18,852	34,265
Total	$ 116,195	$ 91,849	$ 24,346

The District's capital-related debt increased by $24.3 million, due to increased debt for the construction of a new middle school.

- Current and other liabilities totaled $8.4 million and consisted of payroll payable ($4.8 million), accounts payable ($1.8 million), construction contracts retainage payable ($0.8 million), and estimated arbitrage rebate ($1 million).
- More detailed information about the District's long-term liabilities is presented in the notes 6 through 9 to the financial statements.

Net Assets. Net Assets are composed of three sections: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. As itemized in the following table, total net assets increased by $11.4 million.

Table 4
Net Assets
(in thousands)

	6-30-10	6-30-09	Increase (Decrease)
Invested in Capital Assets, Net	$ 188,382	$ 178,482	$ 9,900
Restricted Net Assets	34,711	27,259	7,452
Unrestricted Net Assets Deficit	(7,161)	(1,184)	(5,977)
Total	$ 215,932	$ 204,557	$ 11,375

Invested in Capital Assets, Net of Related Debt. This component of net assets consists of capital assets, net of depreciation and reduced by the outstanding balances of bonds, leases, and certificates of participation that are attributable to the acquisition, construction, or improvement of these assets. These assets increased by $9.9 million, during the 2009-10 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 increased during the 2009-10 fiscal year by $7.5 million.

Unrestricted Net Assets. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - totaled a deficit of $7.2 million at June 30, 2010, which is $6.0 million less than the balance at June 30, 2009. The decrease in unrestricted net assets can be attributed, in part, to increases in employee severance benefits payable ($2.8 million) and other postemployment benefits payable ($1.4 million).

Statement of Activities

A summary of the statement of activities, presented in Table 5, represents the revenues, expenses, and changes in net assets. Revenues totaled $122.8 million and expenses totaled $116.0 million, resulting in a increase in net assets of $6.7 million before adjustments to beginning net assets.

Table 5
Statement of Activities
(in thousands)

	2010	2009	Increase (Decrease)
Program Revenues			
Charges for Services	$ 1,967	$ 2,117	$ (150)
Operating Grants and Contributions	2,141	3,020	(879)
Capital Grants and Contributions	505	983	(478)
General Revenues			
Property Taxes Levied for Operational Purposes	64,150	62,830	1,320
Property Taxes Levied for Capital Projects	11,110	12,945	(1,835)
Local Sales Taxes	11,695	11,611	84
Grants and Contributions - Not Restricted	23,682	24,422	(740)
Unrestricted Investment Earnings	517	1,046	(529)
Gain on Sale of Capital Assets	3,744		3,744
Miscellaneous	3,260	1,480	1,780
Total Revenues	122,771	120,454	2,317
Functions/Program Expenses			
Instruction	60,464	58,322	2,142
Pupil Personnel Services	5,657	5,301	356
Instructional Media Services	955	987	(32)
Instruction and Curriculum Development Services	2,596	2,789	(193)
Instructional Staff Training	1,431	1,458	(27)
Instruction Related Technology	1,249	1,259	(10)
Board of Education	839	836	3
General Administration	931	922	9
School Administration	5,209	5,396	(187)
Facilities Acquisition and Construction	2,399	3,992	(1,593)
Fiscal Services	910	1,168	(258)
Food Services	3,157	3,062	95
Central Services	3,936	1,223	2,713
Pupil Transportation Services	4,158	4,327	(169)
Operation of Plant	8,088	8,424	(336)
Maintenance of Plant	3,339	3,110	229
Administrative Technology Services	382	379	3
Community Services	762	1,046	(284)
Unallocated Interest on Long-term Debt	3,434	3,981	(547)
Unallocated Depreciation Expense	6,129	10,676	(4,547)
Loss on Disposal of Capital Assets		4,628	(4,628)
Total Functions/Program Expenses	116,025	123,286	(7,261)
Increase (Decrease) in Net Assets before Adjustments	$ 6,746	$ (2,832)	$ 9,578

Revenues. Revenues totaled $122.8 million, which is an increase of $2.3 million (1.9 percent) from the $120.5 million received during the 2008-09 fiscal year. Property taxes received for capital projects decreased by $1.8 million due to declining property values. The effect of declining property values on property taxes received for operational purposes was offset by an increase in new taxable value (new construction, improvements, etc.) and a 0.465 mill increase in the nonvoted school tax levy, resulting in a $1.3 million increase in property taxes received for operational purposes. The gain on the sale of capital assets resulted from the sale of the Harris school.

Expenses. Total expenses decreased by $7.3 million, or 5.9 percent, from the $123.2 million expended during the 2008-09 fiscal year. The decrease in total expenses was due mainly to the decrease in unallocated depreciation expense and loss on disposal of capital assets in the 2008-09 fiscal year and were related to the replacement and demolition of two schools during the 2008-09 fiscal year. Instruction expenses increased by $2.1 million due mainly to the American Recover and Reinvestment Act (ARRA) funds that the District received.

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 2009-10 fiscal year.
- The Florida Department of Education has directed that the ARRA Economic Stimulus funding be reported as a major fund.
- Management also has the discretion to present funds not meeting these criteria as major funds if it may be of public interest or to maintain consistency in financial reporting.
- The District reports five major funds for the 2009-10 fiscal year:
    - General Fund
    - Special Revenue - ARRA Economic Stimulus Fund
    - Debt Service – Other Fund
    - Capital Projects – Capital Improvement Section 1011.71(2) Fund
    - Capital Projects – Other Fund

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

	General Fund	Special Revenue-ARRA Economic Stimulus Fund	Debt Service-Other Fund	Capital Projects-Capital Improvement Section 1011.71(2) Fund	Capital Projects-Other Fund	Other Governmental Funds	Total Governmental Funds
Total Revenues	$ 79,635	$ 3,980	$ 59	$ 11,197	$ 12,603	$ 10,740	$ 118,214
Total Expenditures	(87,126)	(3,980)	(13,876)	(2,007)	(2,096)	(10,153)	(119,238)
Other Financing Sources (Uses)	4,510		14,232	(6,947)	29,035	(316)	40,514
Net Changes in Fund Balances	(2,981)		415	2,243	39,542	271	39,490
Fund Balances, Beginning	7,018		9,333	9,020	8,541	453	34,365
Fund Balances, Ending	$ 4,037	$	$ 9,748	$ 11,263	$ 48,083	$ 724	$ 73,855

The District reported 77.2 percent of total revenues from local sources, including funds reported from property tax levies and the local sales tax revenues. Federal funds accounted for 12.2 percent of total revenues reported, while State funds contributed 10.6 percent. Governmental fund revenues totaled $118.2 million, which is a decrease of $1.8 million from the 2008-09 fiscal year. A summary of the District's funding sources are shown in Table 7 below.

Table 7
Revenues
(in thousands)

	2010	2009	Increase (Decrease)
Federal Direct	$ 1,733	$ 1,976	$ (243)
Federal Through State and Local	12,698	8,147	4,551
State	12,492	18,302	(5,810)
Local	91,291	91,636	(345)
Total	$ 118,214	$ 120,061	$ (1,847)

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is $3.4 million, while the total fund balance is $4 million. The total fund balance decreased by $3.0 million during the fiscal year. Key factors contributing to this change are as follows:

- Revenues decreased $4.4 million, mainly from decreases in State revenues.
- Expenditures decreased $2.1 million. The decrease in General Fund expenditures was partially offset by a corresponding increase in expenditures of Federal stimulus funding in the Special Revenue – ARRA Economic Stimulus Fund. The District is also striving to reduce expenditures and conserve resources to the extent practicable without significantly impacting direct instructional activities.

The Special Revenue - ARRA Economic Stimulus Fund was established during the 2008-09 fiscal year to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act. Revenues and expenditures totaled $4.0 million each during the 2009-10 fiscal year.

The Debt Service – Other Fund had a total fund balance of $9.7 million, which is restricted for debt service. The significant activity during the year was the scheduled sales tax revenue bonds and certificates of participation debt payments. Proceeds to fund these payments were transferred in from various capital projects funds.

The Capital Projects - Capital Improvement Section 1011.71(2) Fund had a total fund balance of $11.3 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by $2.2 million because there was significantly less construction activity during the 2009-10 fiscal year.

The Capital Projects – Other Fund has a total fund balance of $48.1 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased $39.5 million in the current year. The increase in fund balance for the current year is mainly because of the COPS issue for the construction of a new middle school. It should be noted that $1.9 million of the total fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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

On September 28, 2010, the Board approved a $33,130,329 guaranteed maximum price contract for the construction of the new middle school.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 45,082,096.90	$ 710,753.00
Investments	36,436,710.74	
Accounts Receivable	14,965.96	71,187.00
Due from Other Agencies	2,941,918.13	36,386.00
Inventories	61,371.53	9,242.00
Prepaid Items	616,144.21	4,860.00
Other Assets		16,500.00
Deferred Charges	504,544.68	
Restricted Investments	1,462,264.64	
Capital Assets:		
Nondepreciable Capital Assets	7,711,821.30	
Depreciable Capital Assets, Net	262,089,680.39	420,824.00
TOTAL ASSETS	$ 356,921,518.48	$ 1,269,752.00
LIABILITIES		
Salaries and Benefits Payable	$ 3,170,019.83	$ 113,921.00
Payroll Deductions and Withholdings	1,588,058.22	
Accounts Payable	1,828,720.61	63,198.00
Construction Contracts Payable - Retainage	765,214.89	
Due to Other Agencies	24,499.16	
Deposits Payable	24,543.14	
Deferred Revenue	63,738.02	
Estimated Liability for Arbitrage Rebate	968,139.10	
Long-Term Liabilities:		
Portion Due Within One Year	17,260,514.28	
Portion Due After One Year	115,297,006.66	64,823.00
Total Liabilities	140,990,453.91	241,942.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	188,381,500.66	420,824.00
Restricted for:		
State Required Carryover Programs	126,500.31	
Debt Service	9,780,384.19	
Capital Projects	24,804,167.67	
Unrestricted	(7,161,488.26)	606,986.00
Total Net Assets	215,931,064.57	1,027,810.00
TOTAL LIABILITIES AND NET ASSETS	$ 356,921,518.48	$ 1,269,752.00

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

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

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 60,464,426.30	$ 50,136.66	$	$
Pupil Personnel Services	5,656,825.74			
Instructional Media Services	954,711.99			
Instruction and Curriculum Development Services	2,596,069.22			
Instructional Staff Training Services	1,431,370.32			
Instruction Related Technology	1,249,019.58			
School Board	838,991.49			
General Administration	930,658.03			
School Administration	5,209,038.81			
Facilities Acquisition and Construction	2,399,134.35			238,266.46
Fiscal Services	910,079.11			
Food Services	3,156,719.76	1,251,896.17	2,140,611.97	
Central Services	3,935,837.69			
Pupil Transportation Services	4,158,324.45			
Operation of Plant	8,088,265.90			
Maintenance of Plant	3,339,021.87			
Administrative Technology Services	381,441.66			
Community Services	761,907.85	664,757.11		
Unallocated Interest on Long-Term Debt	3,433,566.80			266,888.78
Unallocated Depreciation Expense*	6,129,171.28			
Total Primary Government	116,024,582.20	1,966,789.94	2,140,611.97	505,155.24
Component Units				
Charter Schools	$ 4,103,830.00	$ 114,783.00	$ 0.00	$ 134,531.00

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
Gain on Sale of Capital Assets
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning
Adjustment to Beginning Net Assets

Net Assets Restated - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental Activities	Units
$ (60,414,289.64)	$
(5,656,825.74)	
(954,711.99)	
(2,596,069.22)	
(1,431,370.32)	
(1,249,019.58)	
(838,991.49)	
(930,658.03)	
(5,209,038.81)	
(2,160,867.89)	
(910,079.11)	
235,788.38	
(3,935,837.69)	
(4,158,324.45)	
(8,088,265.90)	
(3,339,021.87)	
(381,441.66)	
(97,150.74)	
(3,166,678.02)	
(6,129,171.28)	
(111,412,025.05)	
	(3,854,516.00)
64,150,485.31	
11,110,246.23	
11,694,939.33	
23,681,899.76	3,713,596.00
517,024.70	2,557.00
3,743,775.45	
3,260,014.42	7,980.00
118,158,385.20	3,724,133.00
6,746,360.15	(130,383.00)
204,557,075.93	1,158,193.00
4,627,628.49	
209,184,704.42	1,158,193.00
$ 215,931,064.57	$ 1,027,810.00

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund	Capital Projects - Capital Improvement Section 1011.71(2) Fund
ASSETS				
Cash	$ 6,830,625.72	$	$ 8,133,909.88	$ 11,300,013.32
Investments	18,123.61		151,929.82	188,916.91
Accounts Receivable	13,490.63			
Prepaid Items	616,144.21			
Due from Other Funds	1,217,684.19			
Due from Other Agencies	680,898.00	165,939.70		4,763.29
Restricted Investments			1,462,264.64	
Inventories	15,348.48			
TOTAL ASSETS	$ 9,392,314.84	$ 165,939.70	$ 9,748,104.34	$ 11,493,693.52
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 3,170,019.83	$		$
Payroll Deductions and Withholdings	1,548,344.69	3,454.06		
Accounts Payable	533,133.40			21,712.52
Construction Contracts Payable - Retainage				208,759.65
Due to Other Funds		162,006.80		
Due to Other Agencies	15,792.48	478.84		
Deposits Payable	24,543.14			
Deferred Revenue	63,738.02			
Estimated Liability for Arbitrage Rebate				
Total Liabilities	5,355,571.56	165,939.70		230,472.17
Fund Balances:				
Reserved for State Required Carryover Programs	126,500.31			
Reserved for Encumbrances	486,902.75			247,454.92
Reserved for Inventories	15,348.48			
Reserved for Debt Service			9,748,104.34	
Unreserved, Reported in:				
General Fund	3,407,991.74			
Special Revenue Funds				
Capital Projects Funds				11,015,766.43
Total Fund Balances	4,036,743.28		9,748,104.34	11,263,221.35
TOTAL LIABILITIES AND FUND BALANCES	$ 9,392,314.84	$ 165,939.70	$ 9,748,104.34	$ 11,493,693.52

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 13,104,695.47	$ 764,783.70	$ 40,134,028.09
35,937,304.26	32,279.85	36,328,554.45
		13,490.63
		616,144.21
		1,217,684.19
987,582.34	1,102,734.80	2,941,918.13
		1,462,264.64
	46,023.05	61,371.53
$ 50,029,582.07	$ 1,945,821.40	$ 82,775,455.87
$	$	$ 3,170,019.83
	36,259.47	1,588,058.22
472,876.93	70,781.73	1,098,504.58
505,639.69	50,815.55	765,214.89
	1,055,677.39	1,217,684.19
	8,227.84	24,499.16
		24,543.14
		63,738.02
968,139.10		968,139.10
1,946,655.72	1,221,761.98	8,920,401.13
		126,500.31
1,916,801.51	260,125.65	2,911,284.83
	46,023.05	61,371.53
	32,279.85	9,780,384.19
		3,407,991.74
	334,121.15	334,121.15
46,166,124.84	51,509.72	57,233,400.99
48,082,926.35	724,059.42	73,855,054.74
$ 50,029,582.07	$ 1,945,821.40	$ 82,775,455.87

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

Total Fund Balances - Governmental Funds		$ 73,855,054.74
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.		269,801,501.69
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.		504,544.68
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.		1,119,436.40
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	$ (62,435,000.00)	
Certificates of Participation Payable	(53,117,000.00)	
Compensated Absences Payable	(7,656,466.37)	
Employee Severance Benefits Payable	(2,786,795.95)	
Other Postemployment Benefits Payable	(2,711,000.00)	
Obligations Under Capital Lease	(643,210.62)	(129,349,472.94)
Total Net Assets - Governmental Activities		$ 215,931,064.57

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, 2010

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund	Capital Projects - Capital Improvement Section 1011.71(2) Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 318,015.41	$	$	$
Federal Through State and Local	725,979.07	3,979,735.99		
State	11,817,027.97			
Local:				
Property Taxes	64,150,485.31			11,110,246.23
Local Sales Taxes				
Charges for Services - Food Service				
Miscellaneous	2,623,244.36		58,885.55	87,052.56
Total Revenues	79,634,752.12	3,979,735.99	58,885.55	11,197,298.79
Expenditures				
Current - Education:				
Instruction	52,377,413.74	3,688,112.87		
Pupil Personnel Services	4,692,703.69	13,675.52		
Instructional Media Services	939,033.57	4,110.64		
Instruction and Curriculum Development Services	1,523,487.52	19,104.13		
Instructional Staff Training Services	737,158.55	36,226.40		
Instruction Related Technology	1,173,227.96	49,165.40		
School Board	833,311.39			
General Administration	680,761.05	34,399.99		
School Administration	5,138,656.01			
Facilities Acquisition and Construction	655,983.10			822,484.63
Fiscal Services	899,481.98			
Food Services	29,136.50	602.40		
Central Services	1,136,664.13			
Pupil Transportation Services	3,601,658.32	2,007.52		
Operation of Plant	8,040,808.65			
Maintenance of Plant	3,317,996.33			
Administrative Technology Services	376,514.05			
Community Services	754,589.68			
Fixed Capital Outlay:				
Facilities Acquisition and Construction				500,850.24
Other Capital Outlay	67,053.99	132,331.12		
Debt Service:				
Principal			10,785,000.00	627,883.08
Interest and Fiscal Charges	150,123.42		3,090,641.64	55,593.93
Total Expenditures	87,125,763.63	3,979,735.99	13,875,641.64	2,006,811.88
Excess (Deficiency) of Revenues Over Expenditures	(7,491,011.51)		(13,816,756.09)	9,190,486.91
Other Financing Sources (Uses)				
Transfers In	5,025,768.14		14,053,584.95	211,453.52
Certificates of Participation Issued			178,780.00	
Proceeds from Sale of Capital Assets	22,211.26			
Insurance Loss Recoveries	128,482.80			
Transfers Out	(666,692.04)			(7,158,265.84)
Total Other Financing Sources (Uses)	4,509,770.16		14,232,364.95	(6,946,812.32)
Net Change in Fund Balances	(2,981,241.35)		415,608.86	2,243,674.59
Fund Balances, Beginning	7,017,984.63		9,332,495.48	9,019,546.76
Fund Balances, Ending	$ 4,036,743.28	$ 0.00	$ 9,748,104.34	$ 11,263,221.35

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$ 1,415,336.36	$ 1,733,351.77
594,934.55	7,396,807.32	12,697,456.93
	674,764.85	12,491,792.82
		75,260,731.54
11,694,939.33		11,694,939.33
	1,251,896.17	1,251,896.17
313,527.95	945.92	3,083,656.34
12,603,401.83	10,739,750.62	118,213,824.90
	3,723,872.55	59,789,399.16
	883,259.72	5,589,638.93
		943,144.21
	1,021,661.11	2,564,252.76
	643,324.26	1,416,709.21
	10,813.86	1,233,207.22
	1,822.21	835,133.60
	207,237.60	922,398.64
	4,301.39	5,142,957.40
914,001.83		2,392,469.56
	500.00	899,981.98
	3,105,189.35	3,134,928.25
	4,000.00	1,140,664.13
	65,732.05	3,669,397.89
	1,982.77	8,042,791.42
	1,281.93	3,319,278.26
		376,514.05
	291.90	754,881.58
1,139,722.58	556.27	1,641,129.09
	205,612.51	404,997.62
40,811.70	200,000.00	11,653,694.78
1,848.08	72,291.64	3,370,498.71
2,096,384.19	10,153,731.12	119,238,068.45
10,507,017.64	586,019.50	(1,024,243.55)
1,103,789.86	160,839.00	20,555,435.47
35,821,220.00		36,000,000.00
4,362,996.10		4,385,207.36
416.92		128,899.72
(12,253,823.59)	(476,654.00)	(20,555,435.47)
29,034,599.29	(315,815.00)	40,514,107.08
39,541,616.93	270,204.50	39,489,863.53
8,541,309.42	453,854.92	34,365,191.21
$ 48,082,926.35	$ 724,059.42	$ 73,855,054.74

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, 2010

Net Change in Fund Balances - Governmental Funds		$ 39,489,863.53
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period.		(4,537,780.24)
In the governmental funds, the cost of capital assets is recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the undepreciated cost of the disposed assets.		(619,220.65)
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.		(36,000,000.00)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period.		
Certificates of Participation Payable	$ 1,735,000.00	
Bonds Payable	9,250,000.00	
Obligations Under Capital Leases	668,694.78	11,653,694.78
Deferred charges associated with long-term debt issued in the current period are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current period.		
Deferred Charges, June 30, 2010	$ 504,544.68	
Deferred Charges, June 30, 2009	(567,612.77)	(63,068.09)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current period.		732,539.26
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 increase in the employee severance benefits and other postemployment benefits liability for the current period.		
Employee Severance Benefits Payable	$ (2,786,795.95)	
Other Postemployment Benefits Payable	(1,422,000.00)	(4,208,795.95)
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		299,127.51
Change in Net Assets - Governmental Activities		$ 6,746,360.15

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, 2010

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	4,948,068.81
Investments		24,298.51
Due From Other Agencies		1,475.33
Total Current Assets		4,973,842.65
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		83,857.78
TOTAL ASSETS	$	5,057,700.43
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	730,216.03
Estimated Insurance Claims Payable		1,536,623.00
Total Current Liabilities		2,266,839.03
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		1,671,425.00
Total Liabilities		3,938,264.03
NET ASSETS		
Unrestricted		1,119,436.40
TOTAL LIABILITIES AND NET ASSETS	$	5,057,700.43

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, 2010

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	$ 13,822,864.05
Insurance Loss Recoveries	1,090,830.66
Total Operating Revenues	14,913,694.71
OPERATING EXPENSES	
Salaries	172,216.00
Employee Benefits	877,108.36
Purchased Services	1,563,912.41
Materials and Supplies	1,885.30
Capital Outlay	12,501.60
Insurance Claims	11,986,973.97
Total Operating Expenses	14,614,597.64
Operating Income	299,097.07
NONOPERATING REVENUES	
Interest	30.44
Change in Net Assets	299,127.51
Total Net Assets - Beginning	820,308.89
Total Net Assets - Ending	$ 1,119,436.40

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, 2010

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	$ 13,887,175.86
Cash Received from Insurance Loss Recoveries	1,090,830.66
Cash Received from Other Operating Revenues	4,178.39
Cash Payments to Employees for Services	(1,049,324.36)
Cash Payments to Suppliers for Goods and Services	(1,661,968.81)
Cash Payments for Insurance Claims	(11,631,413.97)
Net Cash Provided by Operating Activities	639,477.77
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(30.44)
Interest Income	30.44
Net Cash Provided by Investing Activities	
Net Increase in Cash and Cash Equivalents	639,477.77
Cash, Beginning	4,308,591.04
Cash, Ending	$ 4,948,068.81

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating Income	$ 299,097.07
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	4,178.39
Decrease in Due From Other Agencies	64,311.81
Decrease in Accounts Payable	(83,669.50)
Increase in Estimated Insurance Claims Payable	355,560.00
Total Adjustments	340,380.70
Net Cash Provided by Operating Activities	$ 639,477.77

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, 2010

	Pension Trust Fund	Agency Funds
ASSETS		
Cash	$ 187,537.64	$ 1,155,858.00
Investments	7,731.30	
TOTAL ASSETS	$ 195,268.94	$ 1,155,858.00
LIABILITIES		
Internal Accounts Payable	$	$ 1,155,858.00
NET ASSETS		
Assets Held in Trust for Pension Benefits	195,268.94	
TOTAL LIABILITIES AND NET ASSETS	$ 195,268.94	

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 FUND
For the Fiscal Year Ended June 30, 2010

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	$ 63,976.00
Investment Earnings:	
Interest	8.12
Total Additions	63,984.12
DEDUCTIONS	
Benefits Paid to Participants	48,558.51
Purchased Services	2,000.00
Other Expenses	6.00
Total Deductions	50,564.51
Change in Net Assets	13,419.61
Net Assets - Beginning	181,849.33
Net Assets - Ending	$ 195,268.94

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

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

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

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

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

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

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

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

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

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

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2010. The annual reports are filed in the District's administrative office.

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the 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 – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).

- Debt Service – Other Fund – to account for debt service related to construction borrowings.

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

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

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

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

➢ **Basis of Accounting**

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

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

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

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

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

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

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

The charter schools, shown as discretely presented component units, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

- **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in State Board of Administration (SBA) Debt Service accounts for investment of debt service moneys; amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes; 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 SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of Federal National Mortgage Association discount notes 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 on investments.

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

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

- **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.

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

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

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

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

- **Long-Term Liabilities**

  Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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.

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
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- **State Revenue Sources**

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

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

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

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

- **District Property Taxes**

The 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 2009 tax levy on September 8, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the 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.

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

- **Capital Outlay Surtax**

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

- **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

- **Budgetary Information**

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

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

- **Deficit Net Assets in Individual Nonmajor Fund**

The following internal service fund has a deficit net assets balance at June 30, 2010:

	Beginning Net Assets	Change in Net Assets	Ending Net Assets
Workers' Compensation / General Liability Self-Insurance Fund	$ 152,521.74	$ (767,828.03)	$ (615,306.29)

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 assets balance.

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	46 Day Average	$ 258,029.10
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	844,527.42
Debt Service Accounts	6 Months	32,279.85
Fidelity Institutional Money Market Fund - Government Portfolio (2)	60 Day or Less Weighted Average	35,030,009.15
Fidelity Institutional Money Market Fund - Treasury Portfolio (1)	60 Day or Less Weighted Average	300,494.97
Federal National Mortgage Association (FNMA)		
Discount Notes (1)	December 29, 2010	1,441,366.19
Total Investments		$ 37,906,706.68

Notes: (1) A portion ($1,462,264.64) of these investments are held by a paying agent in connection w ith the Qualified Zone Academy Bonds financing arrangement (See Note 7).
(2) Investments are held under a trust agreement in connection w ith a Qualified School Construction Bonds financing arragement.

Interest Rate Risk

- The District's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The policy limits current short-term funds investments to a maximum of one year, and investments of bond reserves, construction moneys, and other core funds to a term appropriate to the need for moneys and in accordance with debt covenants, but not to exceed three years.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (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 Inter-local Cooperation Act as provided in Section 163.01, Florida Statutes; SEC registered money market funds; interest-bearing time deposits or saving accounts; United States Government Securities; securities of, or other interest in, an open-ended or closed-ended management type investment company or investments trust registered under the

MONROE COUNTY
DISTRICT SCHOOL BOARD
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Investment Company Act of 1940; and other investments as authorized by law and not prohibited by the investment policy.

- The District's investments in SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The Fidelity Institutional Money Market Fund – Treasury Portfolio normally invests at least 80 percent of assets in United States Treasury securities and repurchase agreements for those securities. As of June 30, 2010, the District's investments in the Fidelity Institutional Money Market Fund – Treasury Portfolio were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.
- The Fidelity Institutional Money Market Fund – Government Portfolio normally invests at least 80 percent of assets in United States Government securities and repurchase agreements for those securities. As of June 30, 2010, the District's investments in the Fidelity Institutional Money Market Fund – Government Portfolio were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.
- FNMA discount notes are senior unsecured debt of Fannie Mae and were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk

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

Concentration of Credit Risk

- 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., Department of Education) are also not subject to the provisions of this policy.

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

- The District investments in FNMA discount notes are 3.8 percent of the District's total investments and 89.3 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).

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 6,611,909.33	$	$	$ 6,611,909.33
Construction in Progress		1,099,911.97		1,099,911.97
Total Capital Assets Not Being Depreciated	6,611,909.33	1,099,911.97		7,711,821.30
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	12,598,426.51	4,558.66	18,992.00	12,583,993.17
Buildings and Fixed Equipment	283,859,101.48		1,306,754.00	282,552,347.48
Furniture, Fixtures, and Equipment	18,092,935.11	497,727.96		18,590,663.07
Motor Vehicles	7,336,151.69	435,192.00		7,771,343.69
Property Under Capital Leases	3,249,835.17			3,249,835.17
Audio Visual Materials and Computer Software	3,884,321.76	8,736.12		3,893,057.88
Total Capital Assets Being Depreciated	329,020,771.72	946,214.74	1,325,746.00	328,641,240.46
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	7,101,936.35	661,538.49	18,992.00	7,744,482.84
Buildings and Fixed Equipment (1)	31,353,398.32	3,805,065.24	687,533.35	34,470,930.21
Furniture, Fixtures, and Equipment	13,203,894.69	1,205,150.39		14,409,045.08
Motor Vehicles	3,709,864.73	616,405.08		4,326,269.81
Property Under Capital Leases	1,664,479.54	275,471.00		1,939,950.54
Audio Visual Materials and Computer Software	3,640,604.84	20,276.75		3,660,881.59
Total Accumulated Depreciation	60,674,178.47	6,583,906.95	706,525.35	66,551,560.07
Total Capital Assets Being Depreciated, Net	268,346,593.25	(5,637,692.21)	619,220.65	262,089,680.39
Governmental Activities Capital Assets, Net	$ 274,958,502.58	$ (4,537,780.24)	$ 619,220.65	$ 269,801,501.69

Note: (1) Beginning balance includes an adjustment to decrease accumulated depreciation by $4,627,628.49 for buildings and fixed equipment as discussed in Note 12.

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 454,735.67
Unallocated	6,129,171.28
Total Depreciation Expense - Governmental Activities	$ 6,583,906.95

5. CHANGES IN SHORT-TERM DEBT

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

GOVERNMENTAL ACTIVITIES	Beginning Balance	Additions	Deductions	Ending Balance
Tax Anticipation Note, Series 2009	$ 0	$ 12,500,000	$ 12,500,000	$ 0

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

6. OBLIGATION UNDER CAPITAL LEASES

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

	Asset Balance
Data Processing Equipment	$ 3,249,835.17

The stated interest rate is 4.245 percent. Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	$ 584,166.00	$ 556,859.47	$ 27,306.53
2012	90,017.06	86,351.15	3,665.91
Total Minimum Lease Payments	$ 674,183.06	$ 643,210.62	$ 30,972.44

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NOTES TO FINANCIAL STATEMENTS
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7. CERTIFICATES OF PARTICIPATION

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

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

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

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 taxable obligations 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 U.S. Treasury.

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 leases 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

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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

Stanley Switlik Elementary School

Sugarloaf Middle School

Horace O'Bryant Middle School

Glynn Archer Elementary School

Marathon High School

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

Certificates	Payment Dates	Interest Rates
Series 2004A	February 1 and August 1	3.625 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
2011	$ 4,452,467.00	$ 3,927,647.00	$ 524,820.00
2012	4,452,497.06	3,997,647.06	454,850.00
2013	4,451,859.56	4,067,647.06	384,212.50
2014	4,449,797.06	4,142,647.06	307,150.00
2015	4,447,197.06	4,222,647.06	224,550.00
2016-2020	13,538,222.80	13,093,235.30	444,987.50
2021-2025	15,808,235.30	15,430,235.30	378,000.00
2026-2027	4,386,494.16	4,235,294.16	151,200.00
Total Minimum Lease Payments	$ 55,986,770.00	$ 53,117,000.00	$ 2,869,770.00

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8. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	$ 1,090,000	4.000 - 5.375	2015
Series 2005A, Refunding	130,000	5.0	2017
District Sales Tax Revenue Bonds:			
Series 2005	46,810,000	3.0 - 5.0	2015
Series 2007	14,405,000	3.98	2015
Total Bonds Payable	$62,435,000		

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

- **State School Bonds**

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

- **District Revenue Bonds**

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

The Board issued Sales Tax Revenue Bonds, Series 2005, on June 14, 2005, totaling $75,000,000. On May 14, 2007, as provided for in the Master Resolution, the Board issued Subordinated Sales Tax Revenue Bond, Series 2007, totaling $20,500,000. The Subordinated Sales Tax Revenue Bond, Series 2007, is secured by a pledge of the Pledged Funds (as defined in the Master Resolution) on a subordinated basis to the pledge of a lien on the Pledge Funds established 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 $68,521,578.55 of discretionary surtax sales revenues (sales tax revenues) in connection with the Sales Tax Revenue Bonds, Series 2005, described above. During the 2009-10 fiscal year, the District recognized sales tax revenues totaling $11,694,939.33 and expended $11,444,433.25 (97.9 percent) of these revenues for debt service directly collateralized by

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these revenues. The pledged sales tax revenues are committed until final maturity of the debt on October 1, 2015. Assuming a nominal growth rate of 3.1 percent in the collection of sales tax revenues, which are levied through December 31, 2015, approximately 99.8 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	$ 271,268.75	$ 210,000.00	$ 61,268.75
2012	270,037.50	220,000.00	50,037.50
2013	276,087.50	235,000.00	41,087.50
2014	278,512.50	250,000.00	28,512.50
2015	270,150.00	255,000.00	15,150.00
2016-2017	52,250.00	50,000.00	2,250.00
Total State School Bonds	1,418,306.25	1,220,000.00	198,306.25
District Sales Tax Revenue Bonds:			
2011	11,443,628.38	9,355,000.00	2,088,628.38
2012	11,439,335.26	9,670,000.00	1,769,335.26
2013	11,421,381.01	9,995,000.00	1,426,381.01
2014	11,419,526.01	10,355,000.00	1,064,526.01
2015	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	68,521,578.55	61,215,000.00	7,306,578.55
Total	$69,939,884.80	$ 62,435,000.00	$7,504,884.80

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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	$ 2,852,488.00	$ 12,278,557.97	$ 11,922,997.97	$ 3,208,048.00	$ 1,536,623.00
Obligations Under Capital Leases	1,311,905.40		668,694.78	643,210.62	556,859.47
Bonds Payable	71,685,000.00		9,250,000.00	62,435,000.00	9,565,000.00
Certificates of Participation Payable	18,852,000.00	36,000,000.00	1,735,000.00	53,117,000.00	3,927,647.00
Compensated Absences Payable	8,389,005.63	937,254.99	1,669,794.25	7,656,466.37	668,572.95
Employee Severance Benefits Payable		2,786,795.95		2,786,795.95	1,005,811.86
Other Postemployment Benefits Payable	1,289,000.00	2,461,000.00	1,039,000.00	2,711,000.00	
Total Governmental Activities	$104,379,399.03	$ 54,463,608.91	$ 26,285,487.00	$ 132,557,520.94	$ 17,260,514.28

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the proprietary funds, as shown 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	$ 1,217,684.19	$
Special Revenue:		
ARRA Economic Stimulus		162,006.80
Nonmajor Governmental		1,055,677.39
Total	$ 1,217,684.19	$ 1,217,684.19

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

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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	$ 5,025,768.14	$ 666,692.04
Debt Service:		
Other	14,053,584.95	
Capital Projects:		
Capital Improvement Section 1011.71(2)	211,453.52	7,158,265.84
Other	1,103,789.86	12,253,823.59
Nonmajor Governmental	160,839.00	476,654.00
Total	$ 20,555,435.47	$ 20,555,435.47

Interfund transfers represent permanent transfers of moneys between funds. The transfers out of the Capital Projects – Capital Improvement Section 1011.72(2) Fund to the General Fund were to reimburse the General Fund for maintenance, capital expenditures, and property casualty insurance premiums recorded in the General Fund. Additionally, funds were transferred from the Capital Projects – Capital Improvement Section 1011.72(2) Fund and the Capital Projects - Other Funds to the Debt Service – Other Fund to make debt service payments for the Certificates of Participation and the Sales Tax Revenue Bonds.

11. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund total $15,554.51 at June 30, 2010.

12. PRIOR PERIOD ADJUSTMENT

At June 30, 2009, the District's government-wide financial statements included accumulated depreciation for buildings and fixed equipment totaling $35,981,026.81. Subsequently, it was determined that the District's depreciation schedules for buildings and fixed equipment were incorrect, resulting in a $4,627,628.49 reduction of accumulated depreciation for buildings and fixed equipment and a corresponding addition to net assets at July 1, 2009.

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13. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Categorical Educational Program: Class Size Reduction	$ 8,621,368.00
Workforce Development Program	806,891.00
Florida Education Finance Program	774,408.00
Voluntary Prekindergarten	575,199.65
School Recongition	370,254.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	323,352.24
Racing Commission Funds	223,250.00
Diagnostic and Learning Resources Centers	185,000.00
Gross Receipts Tax (Public Education Capital Outlay)	181,803.00
Adults with Disabilities	80,863.91
Food Service Supplement	39,679.00
Mobile Home License Tax	31,056.90
Discretionary Lottery Funds	22,389.00
Miscellaneous	256,278.12
Total	$ 12,491,792.82

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

14. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	1.688	$ 39,242,210
Basic Discretionary Local Effort	0.699	16,250,180
Voted School Tax:		
Additional Operating	0.500	11,623,877
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.500	11,623,877
Total	3.387	$ 78,740,144

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15. FLORIDA RETIREMENT SYSTEM

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

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

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

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

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FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $5,449,646.05, $5,438,030.54, and $5,165,057.22, respectively, which were equal to the required contributions for each fiscal year. There were 191 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled $798,879.85.

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

16. EARLY RETIREMENT PLAN

Plan Description. As authorized by Section 1012.685, Florida Statutes, the Board implemented an Early Retirement Plan (Plan) effective July 1, 1992. The Plan is a single-employer public employee retirement system (PERS) and was offered for only one year. The purpose of the Plan was to provide eligible District employees, who elect to retire under the early retirement provisions of the Florida Retirement System, described in Note 15, with a monthly benefit equal to the statutory reduction of the normal retirement benefits when early retirement precedes the normal retirement age of 62. The Board administers Plan assets in a pension trust fund and is responsible for their investment. The Board appoints and removes the Plan Administrator.

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A summary of Eligibility and Benefits follows:

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

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

As of June 30, 2010, there were nine retirees and their beneficiaries receiving benefits under the Plan. There are no current employees eligible to participate in the Plan.

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

Contributions and Reserves. The Plan was established by the Board on July 1, 1992, and may be amended by Board action. Pursuant to the Plan Agreement, no contribution shall be required or permitted from any member. Board contributions shall be sufficient to meet the annual pension cost of the Plan and to amortize the unfunded actuarial accrued liability within 10.14 years based on the July 1, 2009, actuarial study.

Periodic employer contributions to the Plan are determined on an actuarial basis using the aggregate cost method. Under this actuarial cost method, a funding cost is developed for the Plan 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.

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

Total contributions to the Plan in the 2009-10 fiscal year amounted to $63,976, all of which were paid by the Board and were $13,611 more than the actuarially determined contribution requirement determined through the actuarial valuation performed as of July 1, 2009.

The method of determining the annual required contributions for the 2009-10 fiscal year was changed. Previously, the minimum required contribution was determined as a 10-year level-dollar amortization of the difference between the Plan's projected benefit liability and accumulated assets. For purposes of the July 1, 2009, valuation, the method of determining the minimum required contribution has been changed by amortizing the difference between the Plan's projected benefit liability and accumulated assets as a

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level-dollar payment over the future life expectancy of the plan's participants. The new method resulted in a $13,801 decrease in the minimum required contribution as of the beginning of the plan year.

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

Funded Status and Funding Progress.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
July 1, 2009	$ 195,268.94	$ 659,800	$ 464,531	29.6%	(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	7-1-09
Actuarial Cost Method	Aggregate Cost Method
Amortization Method	Level Dollar, closed
Remaining Amortization Period	10.14 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4%
Cost-of-Living Adjustments	3%

17. 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 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

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elected to participate in the ESP. The District will make contributions into 403(b) accounts for ESP participants who retire under the Florida Retirement System (FRS). Participants in the ESP who do not elect to retire under FRS and instead terminate, will receive benefit payments directly from the District, subject to all applicable taxes. No payments were required to be made pursuant to the ESP during the 2009-10 fiscal year. The estimated liability at June 30, 2010, for persons participating in the ESP is $2,786,795.95, and this amount is not discounted.

18. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Contribution requirements of the District and plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 129 retirees received OPEB. The District provided required contributions of $1,039,000 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 $632,992, which represents 1 percent of covered payroll.

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

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for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for OPEB:

Description	Amount
Normal Cost (service cost for one year)	$ 2,463,000
Amortization of Unfunded Actuarial Accrued Liability	(60,000)
Interest on Normal Cost and Amortization	58,000
Annual Required Contribution	2,461,000
Contribution Toward the OPEB Cost	(1,039,000)
Increase in Net OPEB Obligation	1,422,000
Net OPEB Obligation, Beginning of Year	1,289,000
Net OPEB Obligation, End of Year	$ 2,711,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	$		$
2008-09	2,132,000	39.5%	1,289,000
2009-10	2,461,000	42.2%	2,711,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was $26,358,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $26,358,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $61,418,893.81, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 42.9 percent.

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

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

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

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, 2009, used the projected unit credit cost method to estimate the unfunded actuarial liability as of July 1, 2009, and to estimate the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 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 10.5 percent for the 2009-10 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5.0 percent after 11 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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 $100,000 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. Liability under the group medical plan is limited to $250,000 annually for each person. Maximum reimbursements for aggregate individual losses exceeding $250,000 are limited to $1,000,000, per one year policy period and an individual lifetime reimbursement maximum of $4,750,000. Liability in excess of the limitations of the property casualty, including workers' compensation, and group medical programs, is covered under various insurance policies purchased by the District.

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

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

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2008-09	$ 4,638,654.00	$ 9,974,696.92	$ (11,760,862.92)	$ 2,852,488.00
2009-10	2,852,488.00	11,986,973.97	(11,631,413.97)	3,208,048.00

20. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2009-10 fiscal year:

	Total	Workers' Compensation/ General Liability	VISTA Insurance	Health Insurance
Total Assets	$ 5,057,700.43	$ 1,966,187.71	$ 0.00	$ 3,091,512.72
Liabilities and Net Assets:				
Accounts Payable	$ 730,216.03	$	$	$ 730,216.03
Estimated Insurance Claims Payable	3,208,048.00	2,581,494.00		626,554.00
Net Assets:				
Unrestricted Net Assets	1,119,436.40	(615,306.29)		1,734,742.69
Total Liabilities and Net Assets	$ 5,057,700.43	$ 1,966,187.71	$ 0.00	$ 3,091,512.72
Revenues:				
Premium Contributions	$ 13,822,864.05	$ 1,111,581.76	$ 801,200.33	$ 11,910,081.96
Insurance Loss Recoveries	1,090,830.66	430,471.10	74,070.51	586,289.05
Interest	30.44	30.44		
Total Revenues	14,913,725.15	1,542,083.30	875,270.84	12,496,371.01
Total Expenses	(14,614,597.64)	(2,309,911.33)	(875,270.84)	(11,429,415.47)
Change in Net Assets	$ 299,127.51	$ (767,828.03)	$ 0.00	$ 1,066,955.54

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

21. LITIGATION

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

22. SUBSEQUENT EVENTS

On September 28, 2010, the Board approved a $33,130,329 guaranteed maximum price contract for the construction of a new Horace O'Bryant Middle School. In addition, on November 5, 2010, the District issued a Tax Anticipation Note, Series 2010, in the principal amount of $10,000,000 with an interest rate equal to the sum of 64.1 percent of the LIBOR rate, plus 84 basis points.

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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, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 292,270.00	$ 318,015.41	$ 318,015.41	$
Federal Through State and Local	513,000.00	725,979.07	725,979.07	
State	12,685,193.00	11,817,027.97	11,817,027.97	
Local:				
Property Taxes	63,760,455.00	64,150,485.31	64,150,485.31	
Miscellaneous	3,212,160.00	2,623,244.36	2,623,244.36	
Total Revenues	80,463,078.00	79,634,752.12	79,634,752.12	
Expenditures				
Current - Education:				
Instruction	50,127,896.35	52,377,413.74	52,377,413.74	
Pupil Personnel Services	4,464,485.96	4,692,703.69	4,692,703.69	
Instructional Media Services	961,863.23	939,033.57	939,033.57	
Instruction and Curriculum Development Services	1,509,045.04	1,523,487.52	1,523,487.52	
Instructional Staff Training Services	679,362.50	737,158.55	737,158.55	
Instruction Related Technology	1,184,421.46	1,173,227.96	1,173,227.96	
School Board	1,248,576.38	833,311.39	833,311.39	
General Administration	564,428.38	680,761.05	680,761.05	
School Administration	5,077,178.36	5,138,656.01	5,138,656.01	
Facilities Acquisition and Construction		655,983.10	655,983.10	
Fiscal Services	974,312.47	899,481.98	899,481.98	
Food Services		29,136.50	29,136.50	
Central Services	1,057,718.30	1,136,664.13	1,136,664.13	
Pupil Transportation Services	3,658,878.93	3,601,658.32	3,601,658.32	
Operation of Plant	8,301,580.36	8,040,808.65	8,040,808.65	
Maintenance of Plant	2,180,478.17	3,317,996.33	3,317,996.33	
Administrative Technology Services	376,698.85	376,514.05	376,514.05	
Community Services	694,508.89	754,589.68	754,589.68	
Fixed Capital Outlay:				
Other Capital Outlay		67,053.99	67,053.99	
Debt Service:				
Interest and Fiscal Charges	200,000.00	150,123.42	150,123.42	
Total Expenditures	83,261,433.63	87,125,763.63	87,125,763.63	
Deficiency of Revenues Over Expenditures	(2,798,355.63)	(7,491,011.51)	(7,491,011.51)	
Other Financing Sources (Uses)				
Transfers In	3,400,000.00	5,025,768.14	5,025,768.14	
Proceeds from Sale of Capital Assets		22,211.26	22,211.26	
Insurance Loss Recoveries		128,482.80	128,482.80	
Transfers Out		(666,692.04)	(666,692.04)	
Total Other Financing Sources (Uses)	3,400,000.00	4,509,770.16	4,509,770.16	
Net Change in Fund Balances	601,644.37	(2,981,241.35)	(2,981,241.35)	
Fund Balances, Beginning	7,017,984.63	7,017,984.63	7,017,984.63	
Fund Balances, Ending	$ 7,619,629.00	$ 4,036,743.28	$ 4,036,743.28	$ 0.00

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 2,939,535.26	$ 3,979,735.99	$ 3,979,735.99	$
2,939,535.26	3,979,735.99	3,979,735.99	
2,845,731.00	3,688,112.87	3,688,112.87	
	13,675.52	13,675.52	
	4,110.64	4,110.64	
4,950.00	19,104.13	19,104.13	
	36,226.40	36,226.40	
	49,165.40	49,165.40	
	34,399.99	34,399.99	
74,522.26	602.40	602.40	
14,332.00	2,007.52	2,007.52	
	132,331.12	132,331.12	
2,939,535.26	3,979,735.99	3,979,735.99	
$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	$ 0	$ 24,961,000	$ 24,961,000	0.0%	$ 59,183,345.72	42.2%
July 1, 2009	0	26,358,000	26,358,000	0.0%	61,418,893.81	42.9%

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, 2004	$ 131,981.00	$ 480,604.00	$ 348,623.00	27.5%	(1)	(1)
July 1, 2005	139,736.00	469,988.00	330,252.00	29.7%	(1)	(1)
July 1, 2006	149,739.00	612,594.00	462,855.00	24.4%	(1)	(1)
July 1, 2007	167,658.00	596,184.00	428,526.00	28.1%	(1)	(1)
July 1, 2008	181,849.33	596,184.00	414,334.67	30.5%	(1)	(1)
July 1, 2009	195,268.94	659,800.00	464,531.06	29.6%	(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.

As the aggregate cost method does not identify or separatley 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
2005	$ 47,252	100.0%
2006	51,796	100.0%
2007	51,796	100.0%
2008	63,976	100.0%
2009	63,976	100.0%
2010	50,365	127.0%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – EARLY RETIREMENT PLAN

The July 1, 2009, valuation reflects two changes in the actuarial assumptions that are used to determine the plan's liabilities. First, the assumed interest rate was decreased from 5 percent to 4 percent per annum to reflect a reduction in the long-term expected earnings of the trust fund, which is entirely invested in cash and cash equivalents. The net effect of the change in the interest rate was to increase the total projected liability by $51,652 and to increase the normal cost rate by $2,072. In addition, the administrative expense assumption has been changed from a flat $5,125 per year to a 5 percent loading of plan liabilities. The new expense assumption results in $3,173 of assumed administrative expenses for the 2009-10 plan year. In addition, expenses are assumed to increase or decrease in proportion to plan liabilities during later years.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	$ 332,340.74
National School Lunch Program	10.555	300	1,424,667.53
Summer Food Service Program for Children	10.559	323	77,545.68
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	201,895.87
Total Child Nutrition Cluster			2,036,449.82
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	64,483.15
Total United States Department of Agriculture			2,100,932.97
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	217,685.84
Fund for the Improvement of Education	84.215	N/A	146,693.01
Total Direct			364,378.85
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,623,851.13
Special Education - Preschool Grants	84.173	267	37,241.34
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	454,200.96
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	5,213.85
University of South Florida:			
Special Education - Grants to States	84.027	None	81,659.19
Total Special Education Cluster			2,202,166.47
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	1,834,714.11
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	426,922.99
Total Title I, Part A Cluster			2,261,637.10
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	43,813.64
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	8,505.50
Total Education for Homeless Children and Youth Cluster			52,319.14
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121	10,813.86
ARRA - Education Technology State Grants, Recovery Act	84.386	121	26,308.91
Total Educational Technology State Grants Cluster			37,122.77
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	2,635,781.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	358,319.63
Total State Stabilization Fund Cluster			2,994,100.63

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Education (Continued):			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	$ 141,910.79
Career and Technical Education - Basic Grants to States	84.048	161	79,522.06
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	None	25,922.72
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	25,695.05
Twenty-First Century Community Learning Centers	84.287	244	1,059,068.45
Charter Schools	84.282	298	11,428.53
English Language Acquisition Grants	84.365	102	81,544.63
Improving Teacher Quality State Grants	84.367	224	387,671.35
Putnam County District School Board:			
Reading First State Grants	84.357	None	8,140.18
Palm Beach County District School Board:			
Voluntary Public School Choice	84.361	None	73,527.00
Total Indirect			9,441,776.87
Total United States Department of Education			9,806,155.72
United States Department of Health and Human Services:			
Direct:			
Head Start Cluster:			
Head Start	93.600 (3)	N/A	1,188,566.98
ARRA - Head Start	93.708 (4)	N/A	80,076.37
Total Head Start Cluster			1,268,643.35
Indirect:			
Florida Department of Children and Families:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	KD 272	104,804.00
Total United States Department of Health and Human Services			1,373,447.35
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	14,942.38
Florida State University:			
Learn and Serve America - School and Community Based Programs	94.004	None	2,903.91
Total Corporation for National and Community Service			17,846.29
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	594,934.55
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	25,850.52
United States Department of Interior:			
Indirect:			
Monroe County Board of County Commissioners:			
Refuge Revenue Sharing	None	None	48,556.33
Total Expenditures of Federal Awards			$ 13,967,723.73

Notes:

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

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food received during the fiscal year, including $139,379 of cash-in-lieu of donated foods. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include $74,163.46 for grant number/program year 04CH0391/18 and $1,114,403.52 for grant number/program year 04CH0391/19.

(4) ARRA - Head Start. Expenditures include $80,076.37 for grant number/program year 04SE0391/01).

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The President of the Senate, the Speaker of the
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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. 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 aggregate discretely presented component units, as described in our report on the Monroe County District School Board's financial statements. For 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

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. We consider the deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding Nos. 2 and 3 to be significant deficiencies.

Compliance and Other Matters

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

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 25, 2011

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

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

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Matching, Level of Effort, Earmarking that are applicable to the Special Education Cluster program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 6.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we considered to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 through 6 to be significant deficiencies.

We also noted questioned costs for a nonmajor program as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 3.

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

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

Respectfully submitted,

David W. Martin, CPA
March 25, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs except for the Special Education Cluster program (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA), which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391–ARRA, and 84.392-ARRA); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Head Start Cluster (CFDA Nos. 93.600 and 93.708-ARRA); and Disaster Grants–Public Assistance Presidentially Declared Disasters) (CFDA No. 97.036)
Dollar threshold used to distinguish between Type A and Type B programs:	$419,031
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, 2010

FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP). One of the principal methods that a school district uses to document accountability for public resources it receives and uses is by the information included in its annual financial report. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the School Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition.

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

<u>Government-wide Financial Statements</u>

- On the statement of net assets, the District erroneously reported invested in capital assets, net of related debt, and net assets restricted for capital projects, as net assets unrestricted. As a result, the District overstated net assets unrestricted by $213,185,668.33, and understated capital assets, net of related debt, and net assets restricted for capital projects by $188,381,500.66 and $24,804,167.67, respectively. Misreporting net asset classifications may cause financial statement users to incorrectly assess the District's financial position.
- On its statement of activities, the District erroneously reported class size reduction – operating funds and school recognition funds totaling $8,621,368 and $370,254, respectively, as program revenues, operating grants and contributions of the food service function. These revenues should have been reported as general revenues, grants and contributions not restricted to specific programs. Misreporting these revenues may cause financial statement users to make incorrect conclusions about the food service program operations.

<u>Fund Financial Statements</u>

- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a fund as major when the fund's assets, liabilities, revenues, or expenditures represent at least 10 percent of the total governmental funds for these respective classifications. Assets and expenditures of the Debt Service – Other (DSO) Fund, totaled approximately $9.7 million and $13.9 million, respectively, as of June 30, 2010, and the fund's total assets and expenditures represented approximately 11.8 and 11.6 percent of the respective total governmental fund amounts. District personnel prepared a fund analysis to determine the major funds, but erroneously did not include all of the debt service funds that are combined into the DSO Fund, so the DSO Fund was not reported as a major fund, contrary to GAAP. Separately reporting major funds allows financial statement users to readily identify the District's most significant funds and their related balances and transactions, and ensures compliance with GAAP.

- The District incorrectly reported $3,226,585.60 (Capital Projects - Capital Improvement Section 1011.71(2) (CI) Fund $2,130,780.77; Capital Projects – Other Fund, $914,001.83; and Other Governmental Funds, $181,803) of noncapital expenditures as capital expenditures on its statement of revenues, expenditures, and changes in fund balances – governmental funds. Because these expenditures were reported as capitalized expenditures, the District included them in additions to capital assets, resulting in overstatements of capital assets by $3,226,585.60 (buildings, $2,830,748.67; improvements other than buildings, $320,600.83; furniture and fixtures, $66,225.25; and audio-visual materials and computer software, $9,010.85). District personnel had not updated capital asset subsidiary ledgers as of June 30, 2010, or reconciled general ledger balances to subsidiary ledgers. The timely updating of capital asset subsidiary ledgers and reconciliation process may have detected the error of reporting noncapital expenditures as capital expenditures. Our analysis of the noncapital expenditures disclosed:

  - GAAP provide for the use of capital projects funds to account for financial resources used for the acquisition or construction of major projects. Expenditures totaling $1,490,099.14 were for operating lease expenses and salary expenditures of maintenance, information technology, and accounting personnel who performed maintenance and maintenance-related activities during the 2009-10 fiscal year. These activities were not capital in nature, the District did not charge them to specific capital projects in the capital project funds, and these expenditures appeared to be appropriate uses of the restricted fund sources to which they were charged. However, the expenditures were operating in nature and the District should have reported them in the General Fund with corresponding transfers from the appropriate capital projects funds. As a result, various functional expenditure categories in the General Fund were understated by a total of $1,490,099.14 and capital outlay facilities acquisition and construction in the Capital Projects – CI Fund and in the other governmental funds (Public Education Capital Outlay) were overstated by $1,308,296.14 and $181,803.00, respectively. Additionally, transfers in was understated by $1,490,099.14 in the General Fund and Transfers Out was understated in the Capital Projects – CI Fund and in the other governmental funds by $1,308,296.14 and $181,803.00, respectively.

  - The District incorrectly reported the remaining noncapital expenditures totaling $1,736,486.46 ($822,484.63 in the Capital Projects – CI Fund and $914,001.83 in the Capital Projects – Other Fund) as capital outlay facilities acquisition and construction, instead of properly classifying these expenditures as current facilities acquisition and construction. This error contributed to the overstatement of the capital asset additions discussed above.

  Inappropriately reporting these expenditures and transfers may cause misunderstandings of the District's capital asset activities.

<u>Notes to Financial Statements</u>

- GAAP require that the basic financial statements include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. However, the District mistakenly omitted the investment note disclosure for concentration of credit risk for $1,441,366.19 invested in Federal National Mortgage Association Discount Notes, which represent approximately 89 percent of the investments reported in the Debt Service – Other Fund. When required investment note disclosures are improperly prepared, misunderstandings may be made of the District's investment risks.

The above errors and omission occurred mainly because the District had ineffective review procedures to ensure the annual financial report was properly prepared. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's financial statements were materially correct, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in previous reports, most recently in our report No. 2010-181.

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

SIGNIFICANT DEFICIENCIES

Finding No. 2: Payroll Processing – Time Records

The District pays contracted employees on a payroll by exception basis in which employees receive their regular pay each period, unless employees use 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. Leave taken by contracted employees and the number of hours worked by employees who are paid on an hourly basis was input to the payroll system at the schools and departments. The payroll system generated biweekly payroll reports, approved by the school principal or department supervisor, reflecting employee time worked and leave taken. However, as similarly noted in our report No. 2010-181, the District needed to enhance its procedures for documenting employee time worked, as discussed in the following paragraphs.

Payroll Procedures for Documenting Time Worked. Our review of District records and responses to our inquiries disclosed that 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) daily recording total hours worked on timesheets with preprinted employee names, and (4) machine date and time stamped employee time cards. However, at one school, administrative personnel were not required to document time or hours worked. The District's payroll procedures for employees who were paid on an hourly basis provided that weekly timesheets or personnel activity reports (PARs) be used to document time worked; however, as noted below, our review disclosed instances where timesheets and PARs listed only the number of hours worked and did not include the arrival and departure times.

Salary Payments to District Employees Who Worked Two or More Jobs Concurrently. During the course of our audit, we became aware of a teacher who was paid by the local Boys and Girls Club (Club) for managing the Club's before and after-school program at the teacher's school during times that overlapped with the teacher's regular school workday and additional time worked for the District's Twenty-First Century Federal grant program. District payroll records and timesheets provided by the Club, indicate that during the 2009-10 fiscal year, the District paid the teacher $3,968.75 ($25 per hour) from the Twenty-First Century Federal grant program for times reported on Club timesheets for managing the Club's before and after-school program. The overlapping times totaled 158.75 hours and included 72.5 hours for times that were within the teacher's regular workday and 86.25 hours that were concurrent with the teacher's additional work time. As such, payments to the teacher for the overlapping times totaled $7,306.37 (based on the teacher's salary rate), and represent questioned costs.

Upon inquiry, we determined that five other District employees (two teachers, two paraprofessionals, and one lab assistant) were also paid by the Club for work in the Club's before and after-school program. Our review of District payroll records and timesheets provided by the Club disclosed that four of those employees were paid their regular salaries by the District for times totaling 286.25 hours that overlapped with the work times reported on the Club timesheets. The District salary payments for those time overlaps ranged from $16.75 to $43.31 per hour and totaled approximately $7,130. The District's payroll records also indicated that a total of $305 was paid to one of the four employees from the Twenty-First Century Federal grant program for time totaling 20.75 hours that overlapped with the employee's regular school workday.

As a result of the payroll time conflicts noted above, our audit procedures were expanded to encompass an additional review of payroll transactions for District teachers who were paid additional salary on an hourly basis for work performed after the regular school workday. Those audit procedures also included a review of payroll transactions for District teachers who were employed by supplemental educational services (SES) providers to provide after school tutoring sessions to eligible Title I students. The SES providers were required to provide the District with timesheets completed by the tutors to document the amounts billed to the District.

We selected 77 District salary payments to teachers for after-school activity instruction at seven schools. We also selected one payment to each of two SES providers for after school tutoring services and from those two payments, we selected one monthly tutor timesheet for 16 District teachers who the providers employed. District timesheets, other payroll records, and tutor timesheets that were attached to the SES provider payment vouchers were reviewed to determine whether any of the after school activity instruction or after school tutoring times overlapped with the teachers' regular school workday. The results of our review disclosed the following:

District - After School Activity Instruction

- Teacher salary payments for after school activity instruction totaling $1,883 from the Twenty-First Century Federal grant program and $22.88 from the General Fund were made for after school instruction during times that overlapped with the regular school workday. Time overlaps ranged from 5 to 15 minutes and from 25 to 60 minutes for 19 and 23 teachers, respectively, at five schools.
- The arrival and departure times of the after-school activity instruction were not shown on the timesheets provided for 11 teachers selected from one school and the PARs for 5 teachers selected from another school. As such, we were precluded from determining whether any of the after school activity instruction for those teachers was conducted during the regular school workday.
- The Board-approved salary schedule provided that after-school activity instructors were to be paid $25 per hour for academic tutoring activities and $20 per hour for non-academic activities. However, 14 teachers were paid for a total of 100.5 hours at the $25 academic tutoring activities rate, although nonacademic activities, such as tennis, aerobics, music, salsa, and scrapbooking were listed on their timesheets. The after-school activities performed were not shown on the timesheets of 4 teachers.

SES Provider - After School Tutoring

- The SES tutor timesheets for 9 teachers who were employed by one of the providers reported a total of 51 after-school tutoring hours for one month and 25.5 of those hours overlapped with the teachers' regular school workday. The tutor timesheets for 5 teachers employed by the other SES provider reported a total of 32.75 after-school tutoring hours for one month and 10.5 of those hours overlapped with the teachers' regular school workday. The two SES providers were paid $1,175 and $579, respectively, by the District for the after-school tutoring reported on the provider timesheets for times that overlapped with the teachers' regular school workday.
- A teacher employed by one SES provider and a teacher employed by the other SES provider reported after school tutoring on SES tutor timesheets totaling 4 hours and 1.75 hours, respectively, that overlapped with both the teachers' regular school workday hours and time reported by the teachers as working in the District's Twenty-First Century Federal grant program. The two teachers were paid a total of $143.75 from the Twenty-First Century Federal grant program for the overlapping work times.

The salary schedules or other District records did not evidence that the Board intended that the employees perform two or more jobs concurrently. In addition, without payroll records and procedures that provide for a uniform method of documenting actual time worked, including starting and ending times, and when work attendance is not evidenced and timely verified of record, the risk increases that employees may be incorrectly compensated.

Recommendation: The District should enhance its payroll processing procedures to ensure that all employee work time is appropriately documented, approved, and paid in accordance with the Board approved salary schedule, and not in conflict with outside employment. In addition, the Board should document its intent regarding the compensation of employees who perform two or more jobs concurrently. As appropriate, the District should determine the amount of any salary overpayments, and collect the amounts overpaid.

Finding No. 3: Food Service Revenues

The District reported local food service revenues totaling approximately $1,252,000 for the 2009-10 fiscal year. Food service collections at the District's 12 schools are processed through a point-of-sale computer system that uses five-digit codes assigned to students to determine student payment status (full price, reduced price, or free) and to classify food service collections. The system generates daily reports by breakfast and lunch periods showing information such as the type and number of meals served for Federal reimbursement and monitoring purposes, the revenue generated from the food sales, amounts prepaid and charged by students, the amount of cash and checks on hand for deposit, and amounts over and short. The system is designed to account for each student's prepayments and charges, including the students' account balances, and reports can be generated on a daily, monthly, or annual basis.

Our review and testing of the District's food service revenues disclosed that improvements were needed in control procedures over food service collections and the reporting of the number of meals served, as follows:

- As similarly noted in our report No. 2010-181, District personnel did not use the sales reported by the point-of-sale system to record food service revenues, but recorded these revenues from actual deposits to the bank and bypassed the system's controls. Subsequent to June 30, 2010, the District prepared a reconciliation for the 2009-10 fiscal year of actual deposits to amounts reported in the point-of-sale system for meal sales, prepaid meal collections, meal charges, and amounts over and short. The reconciliation also included a comparison of projected collections based on meals served to meal sales. District personnel indicated that for the 2010-11 fiscal year, such reconciliations would be prepared on a monthly basis; however, as of January 2011, only the reconciliation for August 2010 had been completed. Without a timely reconciliation of actual deposits to amounts reported in the point-of-sale system, there is an increased risk that errors or fraud, should they occur, may not be detected timely.
- Monthly point-of-sale reports showing the number of meals served by type were used to prepare monthly Federal reimbursement requests. A summary report of total meals served by type for the 2009-10 fiscal year shows that 6,015 more paid meals, 1,853 more reduced price meals, and 7,967 more free meals were served than were shown on the monthly reports used during the year for Federal reimbursement claims. District records did not evidence nor could District personnel explain the reasons for these differences. Without accurate meal reporting, the District may not receive the Federal reimbursements to which it is entitled.
- The transfer of daily cash collections between personnel at school cafeterias were not always evidenced by transfer receipts signed by the employee transferring the collections and the employee receiving the collections. Absent such transfer documents, the District may be limited in its ability to fix responsibility should a loss of collections occur.

Recommendation: The District should continue its efforts to provide for a timely reconciliation of actual deposits to sales reported by the point-of-sale system and obtain explanations for differences between the number of meals shown as served on the point-of-sale system and the number of meals reported for Federal reimbursement. Additionally, evidence of responsibility for the transfer of cash collections should be maintained.

ADDITIONAL MATTERS

Finding No. 4: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not more than 1.5 mills for capital outlay purposes. This section also provides the allowable uses of capital outlay tax levy proceeds that includes, among other things, funding construction, renovation, and new and replacement equipment. The District accounts for the capital outlay tax levy proceeds in the Capital Projects – Capital Improvement 1011.71(2) (CI) Fund.

For the 2009-10 fiscal year, the District had CI Fund expenditures totaling $9,165,077.72. Our tests of CI expenditures, totaling $9,018,703, disclosed $382,106 of expenditures that did not appear to be for purposes authorized by Section 1011.71, Florida Statutes, as follows:

Description	Questioned Costs
General and Automobile Liability and Excess Workers' Compensation Insurance (1)	$ 302,538
Web Site Maintenance (2)	30,000
Portion of the salaries and benefits of a Finance Department Project Specialist and the Exectutive Secretary to the Director of Facilities and Construction (3)	29,056
Legal Services (4)	8,917
Utilities Manager (5)	8,595
Harris School Appraisal (6)	3,000
Total	$ 382,106

Notes:

(1) The District paid this amount for certain insurance premiums. Contrary to Section 1011.71(5)(b), Florida Statutes, District records did not evidence that these insurance premiums were to insure District educational and ancillary plants as defined by Section 1013.01, Florida Statutes.

(2) The District paid a contractor to maintain its Web site, which is ordinarily an ongoing operating cost (General Fund) and, as such, these costs are not an allowable use of capital outlay tax levy proceeds. District personnel did not offer any justification for paying these costs from capital outlay tax levy proceeds.

(3) District records did not evidence the amount of time and effort these employees spent on capital projects funded with capital outlay tax levy proceeds. After consulting with the Florida Department of Education, Office of Educational Facilities, the District repaid similar costs that we questioned in Report No. 2010-181.

(4) The District paid this amount to a legal firm for human resource and other general legal services not related to capital outlay tax levy advertized projects.

(5) The District contracted with an individual to review utility bills to identify and investigate unusual fluctuations in usage; however, such services are ordinarily performed by employees whose salaries are charged as an ongoing operating cost (General Fund) and, as such, these costs are not an allowable use of capital outlay tax levy proceeds. District personnel did not offer any justification for paying these costs from capital outlay tax levy proceeds.

(6) The District paid this amount for an appraisal in connection with the sale of Harris School on August 20, 2009, which is not an allowable use of capital outlay tax levy proceeds.

A similar finding was noted in our report No. 2010-181. These expenditures, totaling $382,106, represent questioned costs of the capital outlay tax levy proceeds. Section 1011.71(6), Florida Statutes, provides that a school district that violates the expenditure restrictions of Section 1011.71, Florida Statutes, shall have an equal dollar reduction in Florida Education Finance Funds appropriated to the school district in the fiscal year following the audit citation.

Recommendation: The District should amend its procedures to ensure that capital outlay tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the $382,106 of questioned costs or restore this amount to the CI Fund.

Follow-up to Management's Response:

The District's response indicates that capital outlay tax levy proceeds were properly spent on casualty insurance as defined by Section 624.605, Florida Statutes. However, District records did not evidence that such insurance was for District educational and ancillary plants.

Finding No. 5: Performance Assessments

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

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

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

Finding No. 6: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, Board policies state that the adopted salary schedule shall provide differentiated pay for instructional personnel and school-based administrators based upon District-determined factors; however, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on factors such as job classifications, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

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

  The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic coaches and music directors. For the school demographic differentiated pay factor, the salary schedule provided $50 salary supplements for Title I teachers. However, the salary schedule and the union contract did not evidence differentiated pay based on critical shortage areas or level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

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

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

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

Finding No. 7: Capital Asset Depreciation

On the government-wide financial statements, the District reported accumulated depreciation of $71,179,189 and depreciation expense of $6,583,907 for the 2009-10 fiscal year. The District maintains depreciation schedules to support reported amounts for accumulated depreciation and depreciation expense. However, District personnel had not updated most of these schedules for activity that occurred during the 2009-10 fiscal year, resulting in financial reporting errors. We also noticed that the depreciation schedules excluded certain District-owned capital assets. For example:

- The 2009-10 fiscal year depreciation schedule for buildings and fixed equipment included consideration of assets reported by the District at June 30, 2009, but the schedule was not adjusted for the 2009-10 fiscal year activity. As a result, the District reported depreciation expense on $1,306,758 of assets it no longer owned.
- The District calculated depreciation expense based on depreciation schedules for furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software, but the asset values on the depreciation schedules did not agree with the amounts reported by the District for these assets. For example, the District calculated depreciation expense for furniture, fixtures, and equipment based on assets totaling $7,442,609.25; however, the District reported furniture, fixtures, and equipment totaling $18,590,663.07. District personnel explained that the $11,148,053.82 difference was the cost of items that had been removed from the depreciation schedules because they were fully depreciated. However, the District had not reconciled the asset values or the amounts of accumulated depreciation shown on the depreciation schedules to the amounts reported. We noted that the accumulated depreciation on the supporting schedules were $1,282,850.93, $878,849.74, and $215,753.89 more than the amount of accumulated depreciation reported for furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software, respectively.
- The District did not provide a depreciation schedule for property under capital leases totaling $3,249,835.17. The amount of depreciation expense that the District reported for the 2009-10 fiscal year was identical to the amount ($275,471.00) that it reported for the 2008-09 fiscal year.

According to District personnel, the District experienced employee attrition and turnover in positions responsible for maintaining capital asset and capital asset depreciation records, and personnel did not understand the process to properly continue these procedures, contributing to the errors noted above. We extended our procedures to determine that total depreciation expenses reported on the financial statements was materially correct; however, failure to timely update depreciation schedules, and reconcile capital asset and depreciation records, could result in the District reporting materially incorrect capital assets in the future, causing financial statement users to potentially draw inaccurate conclusions regarding the condition of the District's capital assets.

Recommendation: The District should enhance procedures to ensure timely update of depreciation schedules for proper reporting of capital assets.

Finding No. 8: Collection of Social Security Numbers

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

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

The District obtained SSNs for various purposes such as for student enrollment, employee retirement, employee insurance, employee payroll deductions, tax purposes, vendor identification and fingerprinting purposes, and for volunteer fingerprinting and background screenings. However, as similarly noted in our report No. 2010-181, the District did not provide all individuals with the required statement indicating the purpose for collecting the SSNs. The District developed a statement of the purposes for which SSNs were requested, but the statement did not include all the required information nor was it provided to certain individuals to fully comply with Section 119.071(5)(a), Florida Statutes, as follows:

- The District's statement informing individuals of the purpose for collecting the SSNs did not include the required information stating whether the collection of the SSN was authorized or mandatory under Federal or State law. Also, the statement did not identify the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN was collected. Subsequent to our inquiries, effective December 2010, the District revised its statement to include the missing information to comply with Section 119.071(5)(a), Florida Statutes.
- The written statement was provided to individuals when collecting SSNs from job applicants, volunteers, vendors, adult education registrations, and employees for insurance and benefits enrollment registrations. However, when collecting the SSNs for pre-kindergarten through grade 12 student registrations and from individuals who complete free and reduced price meal applications, the District had not established procedures to provide the individuals with the District's statement indicating the purpose for collecting the SSNs.

Effective controls to properly monitor the need for and use of SSNs and to ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

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

Finding No. 9: Gasoline and Diesel Fuel Usage

During the 2009-10 fiscal year, the District maintained inventories of gasoline and diesel fuel at two locations within Monroe County and subsequent to June 30, 2010, the District opened a third location. Fuel expenditures by the District for the 2009-10 fiscal year totaled approximately $227,000 for fuel obtained at the District's fueling locations, $124,000 for fuel purchased with gasoline credit cards, $55,000 for fuel purchased from the Monroe County Board of

County Commissioners, and $6,000 purchased on an account with a local chain gas station. The fuel dispensing equipment at the District's two locations consists of a computer-based fuel pumping system to track fueling records. Two keys are usually needed to obtain fuel from the pumping system, a vehicle ID key and a personnel ID key. A master ID key can be used alone to obtain fuel; however, the individual using the master key must enter a vehicle or equipment number into the system manually to operate the fuel pumping system. Master ID keys were issued to seven employees of the Transportation Department. Vehicle ID keys can be coded so that a personnel ID key is not needed to obtain fuel. The system does not provide a receipt for the fuel obtained. Each fuel dispensing location is open 24 hours per day, 7 days per week, and attendants are not present when fuel is pumped.

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

District personnel indicated, as of September 2010, the monthly transaction reports produced by the District's fueling system were available for review by supervisory personnel on the District's Web site and copies of the monthly detailed billing reports received from the County were provided to the various departments that obtained the fuel. However, District records did not evidence that the reports were reviewed or procedures performed during the review process. Documentation of a periodic review of fuel usage should include the reviewer's signature and evidence of the procedures performed during the review process, such as whether a determination was made of the reasonableness of fuel usage and the date of the review.

We reviewed the June 2010 and October 2010 transaction reports for fuel dispensed into District vehicles and other equipment at the District's two fueling locations. The reports included 479 fueling transactions for 118 District vehicles and other equipment items, and we noted the following:

- Significant fluctuations were noted for the miles per gallon fuel consumption shown on the reports for several vehicles. For example, the amounts reported for four fueling transactions for one truck ranged from 10 miles per gallon to 29.1 miles per gallon and the amounts reported for 10 fueling transactions for one bus ranged from 3.7 miles per gallon to 11.5 miles per gallon.
- Current vehicle odometer readings were apparently not always entered into the system correctly at the time fuel was obtained, as the reports showed that for 53 fueling transactions, the current odometer readings were less than or equal to the odometer readings recorded for the previous fuelings. In addition, we noted 13 fueling transactions in which the previous odometer readings carried forward by the system were different than the odometer readings shown on the report for the previous fueling transactions.

Under these circumstances, the District has limited assurance of the reasonableness of fuel consumption and there is increased risk that unauthorized use of District fuel may occur without detection. A similar finding was noted in our report No. 2010-181.

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

Finding No. 10: Adult General Education Courses

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

The District reported 277,820 adult general education hours to FDOE for the 2009-10 fiscal year. Our review of the District's reporting for 10 students enrolled in 52 adult general education courses disclosed 1,306 net hours overreported for 34 courses, as follows:

- In reporting scheduled hours for the fall 2009 semester, the District reported scheduled hours for students on a school holiday, resulting in 28 overreported hours for 8 of the students tested.
- For 2 students, the District did not report all of the hours scheduled. District personnel indicated that enrollment records had not been updated for changes to the students' schedules, resulting in 24 underreported hours.
- For 5 students, the District reported scheduled hours for online and lab courses in the same time slot on the same day. District personnel indicated that the time slot was a default time slot and that instruction was available for all scheduled courses during the scheduled time slot. In one instance, a student was scheduled for up to 15 hours per day in the scheduled time slot. Per FDOE reporting guidelines, the scheduled hours must be consistent with the expected hours of attendance for the student. District personnel indicated that they reasonably expected a student to attend 1 hour per scheduled online or lab class per day if multiple courses are scheduled in the same time slot. As a result, 1,302 hours was overreported for these students.

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

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to FDOE. The District should also contact FDOE for resolution of the misreported hours.

Finding No. 11: Cash Collections – After School Day Care and Adult Education Programs

The District operated a fee-supported, school-age child care program that provided after-school care at eight schools. For the 2009-10 fiscal year, the District recorded $553,742 of fee collections for this program. In addition, pursuant to Section 1009.22, Florida Statutes, and State Board of Education Rule 6A-6.084, Florida Administrative Code, the District assessed, collected, and recorded $50,690 of adult education fee collections for students enrolled in its adult education program. As similarly noted in our report No. 2010-181, our review of internal controls and testing of after school day care at Poinciana Elementary School and adult education fee collections disclosed the following:

- Poinciana Elementary School's after-school day care fees totaled $256,523 for the 2009-10 fiscal year. The after-school day care manager was responsible for collecting fees, writing receipts, completing the report of moneys collected, making the bank deposits, performing the reconciliations, and maintaining the after school day care program records. In these circumstances, one employee had control over the transaction process such that errors or fraud, should they occur, might not be detected in a timely manner.
- The Poinciana Elementary School had after-school day care program overdue fees, totaling approximately $2,600, at June 30, 2010. However, the Board had not adopted written policies or procedures establishing the procedures for follow-up of overdue accounts for the program. When collection efforts are not timely, there is an increased risk that such fees will remain uncollected.
- Independently prepared fee audits, comparing fees assessed based on attendance records with recorded fee collections and deposits, were not performed for the District's schools that provided after-school day care or for adult education program fee collections. Without such comparisons, there is an increased risk of intentional or unintentional loss of collections.

Recommendation: The District should enhance its control procedures to ensure that all schools provide for an adequate separation of duties for the functions of assessing, collecting depositing, and recording of after school day care fees. Additionally, the District should establish appropriate after school day care program policies and procedures that include appropriate actions to follow-up on overdue accounts. The District should also ensure that independent fee audits are performed for after school day care and adult education program fee collections.

Finding No. 12: Employee Reimbursements

The District reimburses employees for expenses they incur on the District's behalf, including reimbursements for travel expenses. During the 2009-10 fiscal year, the District reimbursed District employees $171,423 for travel and other expenses. Our review of these reimbursements disclosed that the District has not developed a procedure to review nontravel related reimbursements to determine if they represented a taxable benefit that the District should report as income on the employee's annual tax statements to the Internal Revenue Service (IRS). We noted that the District reimbursed a Head Start paraprofessional employee for educational expenses related to a tuition benefit program as discussed in Federal Awards Finding No. 4. District personnel had not reviewed these payments to determine whether they were taxable, in which case they should have been reported to the IRS on the employee's annual tax statement. Based on our review, the payments appear to represent a taxable benefit that the District should have reported to the IRS on the employee's annual tax statements. During the 2009-10 fiscal year, the District reimbursed the employee $24,750 of which it paid $15,438 during the 2009 calendar year and $9,312 during the 2010 calendar year. Consequently, the District had not included the amounts on the employee's tax statements for the 2009 and 2010 calendar years. We further noted that additional Head Start employees participated in the tuition benefit program during the 2010 calendar year.

Without evaluating employee reimbursements to identify taxable benefits, the District could be subjected to penalties and interest assessments from the IRS.

Recommendation: The District should enhance procedures to ensure that employee reimbursements that represent taxable income are properly reported to IRS. In addition, the District should review employee reimbursements to identify those reimbursements representing taxable income and contact the IRS to determine the appropriate resolution.

Finding No. 13: 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 property and contents for its 12 schools and other facilities to be approximately $310 million at March 1, 2010. 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/repair of the property loss while it waits for Federal and State assistance. At June 30, 2010, the District had approximately $3,408,000 in unreserved fund balance in the General Fund, which it could use to cover losses above any insurance proceeds the District receives. A similar finding was noted in our report No. 2010-181. Without an action plan that identifies financing resources for property loss replacement/repairs, the District could potentially experience financial strain while trying to meet its current obligations after incurring such a loss.

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. 14: Net Asset Deficit - Workers' Compensation / General Liability Internal Service Fund

The District's self-insurance program provides property 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 claims exceed the agreed-upon 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. The premium contributions, along with claims payments and other expenses of the self-insurance program, are accounted for in an internal service fund.

During the 2009-10 fiscal year, the District's Workers' Compensation / General Liability Insurance Internal Service Fund unrestricted net asset balance declined $767,828.03 from a positive balance of $152,521.74 to a deficit balance of $615,306.29. A summary of the unrestricted net asset balance for the District's Workers' Compensation / General Liability Insurance Internal Service Fund for the past four fiscal years is shown below:

Fiscal Year Ended June 30	Unrestricted Net Asset Balance Positive (Deficit)
2007	$1,196,075.99
2008	281,410.38
2009	152,521.74
2010	(615,306.29)

Our review of the unrestricted net asset balance of the above internal service fund subsequent to June 30, 2010, disclosed that as of December 31, 2010, the net asset balance of the Workers' Compensation / General Liability Internal Service Fund had declined an additional $199,620.54, to a deficit balance of $814,926.83. 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.

District personnel indicated that the reduction in the net asset balance of the Workers' Compensation / General Liability Internal Service Fund was caused, in part, by a $440,034 increase in the actuarially-determined estimated liability for claims payable at June 30, 2010. To address the declining financial position of the Workers' Compensation / General Liability Internal Service Fund, District personnel indicated that the amount of monthly premium contributions to the program would be reevaluated and increased to help restore a favorable net asset balance to the Workers' Compensation / General Liability Internal Service Fund.

Recommendation: The Board should develop a formal plan for monitoring the financial condition of the Workers' Compensation / General Liability Internal Service Fund and increase premium contributions to help ensure that a favorable net asset balance is maintained to meet the fiscal demands of the self-insurance program.

Finding No. 15: Information Technology – Timely Removal of Access Privileges

Effective management of information technology (IT) access privileges includes the timely removal of such privileges when employment separations occur. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others.

Our audit disclosed that the District did not timely remove the network access privileges of some former employees. Specifically, we performed a test of access privileges for the 204 employees who terminated employment with the District during the 2009-10 fiscal year. We determined that nine former employees still had network access privileges for between 181 and 441 days after their termination dates. In response to our inquiry, the District removed the access privileges for the nine former employees' network identifications (IDs). In addition to the nine former employees, the ID of a former employee of the IT department remained temporarily active until a different ID could be associated with parts of the District's software infrastructure. When the access privileges of former employees are not promptly removed, the risk is increased that the access privileges could be misused.

Recommendation: The District should enhance its procedures to ensure that IT access privileges of former employees are promptly removed.

Finding No. 16: Information Technology – Disaster Recovery Plan

An important element of an effective internal control system over IT operations is a formal, written disaster recovery plan. A disaster recovery plan should identify the data, processes, and applications that are critical to the District, provide for the backup of critical data, and contain a step-by-step plan for recovery so that the potential impact of a disaster on ongoing operations is minimized. A disaster recovery plan should be periodically tested to ensure its effectiveness in restoring IT services in the event of an actual disaster.

The District's disaster recovery plan was a part of the District's *Information, Communication, and Technology Plan* (Technology Plan). The disaster recovery plan focused on data backup and the protection of physical equipment. The District's data was backed up via remote journaling to an alternate site recovery center elsewhere in the District. The alternate site recovery center was intended to handle all of the District's business processing. However, although the stored data at the District's recovery center had been used to restore data at the main data center, no switch-over processing test at the recovery center had been performed because the District had not installed the wiring necessary to permit the alternate site recovery center to operate independently.

The District's Technology Plan also referred to the possibility of processing alternatively at a data center within another school district in the consortium to which the District belonged. The District had not signed an alternate site agreement with another school district, although there had been discussions among the consortium members about helping each other when needed.

A similar finding was noted in our report No. 2010-181. Without switch-over disaster recovery testing, there is an increased risk that the District will be unprepared to timely restore IT services in the event of an actual disaster.

Recommendation: The District should test the effectiveness of its disaster recovery plan on a periodic basis and establish an alternate site agreement with applicable consortium members.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA 84.027 and 84.391 - ARRA)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: CFDA No. 84.027 - $143,479.96; CFDA 84.391 - $168,227.85

Matching, Level of Effort, Earmarking – Early Intervention Earmark. The Individuals with Disabilities Education Act (IDEA) provides funds for services to children with disabilities, including early intervention, special education, and related services. Title 34, Section 300.226, Code of Federal Regulations, limits the District's use of the amount received under Part B of the Act, in combination with other amounts, to no more than 15 percent to develop and implement early intervention services for students who are not currently identified as needing special education or related services. The Florida Department of Education (FDOE) determined that the District had significantly disproportionate data for race or ethnicity of students with disabilities, requiring the District to set aside 15 percent of its IDEA funds for coordinated early intervention services (CEIS). Expenditures for CEIS could include personnel costs, such as behavioral specialists, exceptional student education teachers, paraprofessionals, and other staff, to reduce the significantly disproportionate data.

The District identified students as eligible for Special Education program regular instruction, such as reading, speech, behavioral, and emotional, based on individual educational plans prepared yearly that include annual goals for the students. Students identified for CEIS receive remediation through the general education setting, typically by a general education teacher or teacher aide under the guidance of a behavioral specialist or exceptional student education specialist.

FDOE awarded the District $2,078,052.08 for the 2009-10 fiscal year Special Education program and the District was required to set aside $311,707.81, representing 15 percent of the total of these awards, for CEIS. However, District records did not evidence the identification of CEIS expenditures because, according to District personnel, detailed tracking for CEIS was not maintained. District personnel also indicated that while they are currently following FDOE's directive to reserve 15 percent of IDEA funds for intervening services, the tracking of intervening services provided has not been current. Subsequent to our inquiry, the District, in February 2011, provided a list of teachers, teacher aides, counselors, behavioral specialists, diagnostic specialists, and program specialists and a list of equipment purchases as documentation that the District met the required 15 percent allocation for CEIS; however, these records did not correlate the employees' services or equipment purchased to CEIS. To correlate District records to CEIS, personnel activity reports or alternative records could be maintained to demonstrate how the District complied with this requirement. Without such, the District incurred questioned costs totaling $311,707.81. A similar finding was noted in our report No. 2010-181.

Recommendation: The District should establish procedures to ensure that coordinated early intervention services are provided for Special Education programs. Additionally, the District should document to the grantor (Florida Department of Education) the allowability of the questioned costs, totaling $311,707.81, for the required coordinated early intervention services, or restore this amount to the program.

District Contact Person: Michael Kinneer, Chief Financial Officer

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Twenty-First Century Community Learning Centers (CFDA No. 84.287)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: CFDA No. 84.010 - $23,140; CFDA No. 84.287 - $6,300.50

Allowable Costs/Costs Principles. United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1 provides, in part, to be allowable under Federal awards, costs must be necessary and reasonable for 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. In addition, Title 34, Section 80.30(i)(11), Code of Federal Regulations, requires that contractors retain all required records for three years after final payment and all other pending matters are closed. However, our procedures disclosed certain areas of noncompliance and questioned costs relating to the Title I and Twenty-First Century Community Learning Centers programs, as discussed below.

Title I Program. Title 34, Section 200.45, Code of Federal Regulations, provides that, for those schools identified for a second year as a school in need of improvement, the District must arrange for eligible students to receive supplemental educational services (SES) from a State-approved provider. The District contracted for tutorial services at Gerald Adams Elementary with SES providers, requiring the providers to maintain records for five years of student attendance showing the dates of tutoring sessions, including starting and ending times. The contracts authorized the SES providers to charge per-student fees for individual or group tutoring sessions up to a maximum of $1,115 per student for providing the services. The after school tutoring sessions were often taught by District teachers who were employed by the providers.

As similarly noted in our report No. 2010-181, payments totaling $57,008, to one SES provider for tutoring services during October 2009 and November 2009 were not adequately documented prior to payment. Although the SES provider initially furnished the District with a summary of the tutoring session dates and monthly student progress reports completed by the tutors to support amounts billed on monthly invoices, the provider did not provide daily attendance records showing the starting and ending times of the sessions. Upon inquiry in September 2010, District personnel stated that the attendance records had been shredded by the vendor and other District records were not available to evidence that the District obtained the contracted services. Subsequent to delivery of our preliminary and tentative findings, the SES provider located attendance records for the services and copies of those records were furnished to the District in March 2011. Our review of those records disclosed that for nine teachers who were employed by the provider, the attendance records reported 804 after school tutoring hours and 225.5 of those hours overlapped with the teachers' regular school workday and the starting and ending times of the tutoring sessions were not shown for 89 of the hours reported. The payments made to the SES provider totaling $21,386, for tutoring sessions conducted during the teachers' regular workday and payments made for tutoring sessions that were not documented by attendance records showing the starting and ending times of the sessions, represent questioned costs to the Title I program. Payments made to the SES provider for after school tutoring services subsequent to November 2009, were adequately documented with daily attendance records showing the starting and ending times of the tutoring sessions.

Financial Statement Finding No. 2 addresses control deficiencies relating to overlapping work schedules of certain District employees. These control deficiencies and our audit tests of payroll time records disclosed additional payments totaling $1,754 that were made to SES providers for tutoring sessions conducted by District teachers during the teachers' regular workday. As such, those payments totaling $1,754 also represent questioned costs to the Title I program.

Twenty-First Century Community Learning Centers. This program provides academic enrichment opportunities during non-school hours for students who are most at risk of academic failure. Students are served in before-school, after-school, and summer programs. Enrichment programs include early intervention, academic remediation (tutoring and homework help), educational (math and science), cultural (music and art), and recreation (lifelong physical activities). As noted in Financial Statement Finding No. 2, which addresses control deficiencies relating to overlapping work schedules and payroll time records, some District employees were paid from Twenty-First Century program funds for work in the before and after-school enrichment programs during times that overlapped with other work, such as managing a local Boys and Girls Club's after-school program and performing tutoring work for an SES provider. As such, payments made to these employees totaling $6,300.50 from the Twenty-First Century Program for after-school work during the time conflicts represent questioned costs to the Twenty-First Century Program.

Recommendation: To help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities, the District should establish procedures to ensure that expenditures are adequately documented as required by 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 (Florida Department of Education) the allowability of the $29,440.50 of questioned costs, or restore these moneys to the respective programs. In addition, the District should review the remaining expenditures for supplemental educational services and salaries from these grants to determine the allowability of those costs.

District Contact Person: Michael Kinneer, Chief Financial Officer

Federal Awards Finding No. 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Major Federal Programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); and Twenty-First Century Community Learning Centers (CFDA No. 84.287);
Nonmajor Federal Program: Education for Homeless Children and Youth (CFDA No. 84.196)
Finding Type: Noncompliance and Significant Deficiency (CFDA No. 84.287) and Questioned Costs (CFDA No. 84.196)
Questioned Costs: CFDA No. 84.287 – $66,582 and CFDA No. 84.196 - $17,433

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

As similarly noted in our report No. 2010-181, our review disclosed that enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries to certain Federal Programs, as follows:

- Child Nutrition Cluster Program. Our review disclosed four employees who were paid $102,651 from Child Nutrition Cluster funds for working in the program during the 2009-10 fiscal year. These employees worked in other District activities; however, personnel activity reports or equivalent documentation were not prepared to document the amount of time worked in the Child Nutrition Cluster Program and other District activities. Although the required time records were not properly maintained by the District, we were able to satisfy ourselves that the employees devoted the appropriate amount of time to the Program by having three of the employees' who were still employed by the District subsequently certify their work effort in the Child Nutrition Cluster Program. The work effort of the fourth employee who had terminated employment, was certified by a project specialist who was knowledgeable of the former employee's work.
- Twenty-First Century Community Learning Centers and Education for Homeless Children and Youth. Our review disclosed that the $84,015 annual salary of one employee was paid from the Twenty-First Century program ($66,582) and from the Education for Homeless Children and Youth program ($17,433). Personnel activity reports prepared by the employee support the allocation of the employee's annual salary between the

two programs. However, our inquiries of District personnel and review of other District records provided for audit indicate that during the 2009-10 fiscal year, the employee also worked as the project director for three other Federal programs. Absent personnel activity reports or equivalent documentation showing the amount of time the employee worked as project director for the other Federal programs, we could not determine that the allocation of the employee's annual salary to the Twenty-First Century program and the Education for Homeless Children and Youth programs was consistent with time actually spent on activities of those Federal programs. As such, payments made to the employee totaling $66,582 from the Twenty-First Century program and $17,433 from the Education for Homeless Children and Youth program, represent questioned costs to the programs.

Recommendation: The District should enhance procedures to provide for personnel activity reports for employees for who work on multiple activities or cost objectives. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the $84,015 of questioned costs or restore these moneys to the respective programs.

District Contact Person: Michael Kinneer, Chief Financial Officer

Federal Awards Finding No. 4:
Federal Agency: Department of Health and Human Services
Award Number: 04SE0391/01
Program: Head Start Cluster (CFDA Nos. 93.600 and 93.708 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $9,043

Activities Allowed or Unallowed. Head Start provisions permit agencies to use Head Start program funds to provide educational and professional development that enables (paraprofessional) teachers to meet professional standards, which includes providing financial assistance to allow teachers to complete post-secondary coursework. The District notified qualified paraprofessional Head Start teachers of the opportunity to complete coursework towards achieving a valid teaching degree. The District's Head Start program application and grant budget included funding to pay for qualified employees' cost of tuition and books related to achieving a valid teaching degree.

Employees who applied for this benefit signed an agreement with the District that specified the responsibilities of the District and the employee. This agreement provided that the employee would apply for financial aid by completing a Free Application for Federal Student Aid (FAFSA) and would absorb any costs of education until such time as the employee provides evidence of satisfactory completion of coursework and was qualified for a valid teaching certificate in Florida. Upon receiving such evidence, the District would reimburse the employee's tuition and books expenses. In return for paying the cost of the tuition and books, the employee agreed to work for the District for at least three years.

During the 2009-10 fiscal year, the District reimbursed a Head Start paraprofessional who had successfully completed course requirements and became certified as a teacher. The District paid the employee $24,750, which was the amount of the student loans that the employee incurred to complete the course requirements. Our review of the employee's student account history disclosed that actual tuition and book costs totaled $18,807 and that the employee received Federal Pell Grants totaling $3,100 to offset educational costs, resulting in a net educational cost of $15,707 for tuition and books. The employee's student account history indicated that the employee received the difference of $9,043 as stipends. Since the District's agreement with the employee provided only for reimbursement of the employee's tuition and books, the District overpaid the employee $9,043, all from ARRA – Head Start funds (CFDA 93.708).

Recommendation: The District should enhance its procedures to ensure payments are consistent with contract provisions, and restore $9,043 to the ARRA – Head Start program.

District Contact Person: Michael Kinneer, Chief Financial Officer

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

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

Financial Statement Finding No. 3 addresses control deficiencies relating to the District's food service program. These control deficiencies indicate meal counting problems, which impacts the administration of the Federally-funded food service program. A similar finding was noted in our report No. 2010-181.

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

District Contact Person: Michael Kinneer, Chief Financial Officer

Federal Awards Finding No. 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027 and 84.173) and Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Equipment Management. Our testing of equipment purchases of the Special Education Cluster and Title I programs totaling $9,364 and $158,424, respectively, disclosed that the equipment was not recorded in the District's subsidiary records of tangible personal property on a timely basis. Equipment purchased for the Special Education program was received in December 2009 and March 2010, and the equipment purchased for the Title I program was received in August 2009; however, the equipment was not entered into the subsidiary records of tangible personal property until August 2010. Without the timely updating of tangible personal property records for equipment purchases, the District's ability to properly account for these assets could be adversely affected.

Recommendation: The District should implement procedures necessary to provide adequate control over tangible personal property used in Federal programs.

District Contact Person: Michael Kinneer, Chief Financial Officer

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS,** the District had taken corrective actions for findings included in our report No. 2010-181.

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, 2010

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-146 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) / Allowable Costs/Cost Principles.	The District records did not evidence the basis upon which charges for electrical, water, garbage and custodial services were allocated to the Child Nutrition Cluster program, resulting in questioned cost of $160,839.	Corrected.	The District restored the $160,839 to the Food Service Fund during the 2009-10 fiscal year.
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.	The District has hired a new grants manager who is following proper procedures to see that the District records evidence the authority for costs. The District will work with the grantor regarding the questioned costs.
2010-181 (1)	Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); and Improving Teaching Quality State Grants (CFDA No. 84.367) / Allowable Costs/Costs Principles	Controls over charges to Federal programs could be improved to help ensure that grant activities are properly managed and monitored and that Federal funds are only spent for grant activities. Lack of adequate monitoring over these programs resulted in 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).	Partially corrected.	Controls over charges to Federal programs have been improved and the District will work with the grantor regarding questioned costs. The District hired a new grants manager for Adult Education.
2010-181 (2)	Adult Education – Basic Grants to States (CFDA No. 84.002) / Allowable Costs/Costs Principles – Documentation of Time and Effort	Procedures could be improved to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives. Unsupported payroll expenditures charged to the program resulted in questioned costs of $11,281.	Partially Corrected.	Procedures have been improved to provide for the required semiannual certifications and for the periodic personnel activity reports for employees who work on multiple activities or cost objectives. The District will work with the grantor regarding the questioned costs. A similar finding is noted in the 2009-10 fiscal year report.
2010-181 (3)	Title I Grants to Educational Agencies (CFDA No. 84.010) /Special Test and Provisions – Highly Qualified Teachers	Controls could be enhanced to ensure that all teachers hired to teach core academic subjects in Title I schools are highly qualified and that parents receive timely notification when their children have been assigned or have been taught by non-highly qualified teachers or paraprofessionals.	Corrected.	Controls have been enhanced to ensure that all teachers hired to teach core academic subjects in Title I schools are highly qualified and that parents receive timely notification if the teachers are non-highly qualified.
2010-181 (4)	Special Education – Grants to States (CFDA 84.027) / 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.	Not Corrected.	For the 2010-11 fiscal year, the District is working to enhance procedures to adequately document charges to the program.
2010-181 (5)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555 and 10.559) / Reporting and Eligibility	Controls could be strengthened to ensure accurate meal counts are reported prior to the submission of the monthly claims for reimbursement.	Not Corrected.	The District has implemented new procedures for the 2010-11 fiscal year that strengthened controls in order to ensure accurate meal counts are reported prior to the submission of the monthly claims reimbursement.

EXHIBIT A

MANAGEMENT'S RESPONSE

DR. JOSEPH P. BURKE
Superintendent of Schools

"Student Success,
Whatever It Takes"

March 25, 2011

David W. Martin, CPA
Auditor General
8390 N.W. 53rd Street, Suite 203
Doral, Florida 33166

Dear Mr. Martin:

Attached you will find Management responses to the 2009/2010 Audit findings.

Sincerely,

Joseph P. Burke

Dr. Joseph P. Burke
Superintendent of Schools

241 Trumbo Road • Key West, FL 33040
Tel. (305) 293-1400 • Fax (305) 293-1408
www.KeysSchools.com

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

MATERIAL WEAKNESS

Finding No. 1: Improvements are needed in District procedures for ensuring that account balances, transactions, and note disclosures are properly reported on the financial statements.

Response - Agree
Status of financial reporting: Partially Corrected
The District is creating procedures to ensure that account balances, transactions, and note disclosures are properly reported on the financial statements.

SIGNIFICANT DEFICIENCIES

Finding No. 2: Payroll processing procedures could be improved to ensure that employee work time is appropriately documented, approved, and paid in accordance with Board intent.

Response - Agree
Status: Corrected

- The District has enhanced its payroll processing procedures to ensure that all employee work time is appropriately documented, approved, and paid in accordance with the Board approved salary schedule, and not in conflict with outside employment.
    - The after school salary for the 21st CCLC paid to teachers is on the approved supplement list in the United Teachers of Monroe contract. Supplements are provided to teachers to give up their planning time during their 7.5 hour day with the understanding that planning will take place during another part of the employee's work day. Two schools with 21st CCLC Programs do not use any teachers during teacher planning time. Four have filed plans signed by the COO and principal as to when teachers will make up their planning time. The Boys and Girls Club at Glynn Archer Elementary does not employ district teachers, the program at Stanley Switlik Elementary begins after the teacher planning time. Master Schedules with all after school activities (SES, 21st CCLC, Boys and Girls Club), personnel, times, and room numbers are created each semester to ensure that employees' work times do not conflict with each other.
- Employees will not perform two or more jobs concurrently.
- The District will determine if there have been any salary overpayments, and collect the amounts overpaid.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 3: Improvements were needed in controls over food service collections.

Response – Agree.
Status: Food Service Revenues—Partially Corrected

- The District will continue efforts to provide for a timely reconciliation of actual deposits to sales reported by the point-of-sale system and obtain explanations for differences between the number of meals shown as served on the point-of-sale system and the number of meals reported for Federal reimbursement.
  - The actual deposits to the bank are reconciled monthly to the bank deposit amount reported on the point of-sales system, therefore preventing a bypass of the system's control.
  - Monthly claim reports to the State did balance with the monthly reports from the software program; however, the software vendor stated that on June 17th all of the AR files were read into the system again and this is why the reports did not balance. This year, with the monthly report, the District is preparing a three months yearly recap to try and uncover potential errors.
- Evidence of responsibility for the transfer of cash collections will be maintained. The transfer of daily cash collections procedures have been in place for many years and the managers have the procedures in their manuals. The new manager for Marathon High School will receive additional training as needed and procedures will be available.

ADDITIONAL MATTERS

Finding No. 4: The District used capital outlay tax levy moneys for purposes contrary to Section 1011.71, Florida Statutes, resulting in $382,106 of questioned costs.

Response – Partially Agree.
Status: Partially Corrected
From the funds of the District capital outlay levy, the District included payment of the costs of general and automobile liability insurance and excess workers' compensation insurance as referenced in 1011.71 Florida Statute. The statute allows for the use of capital funds for the purchase of casualty insurance. Florida Statute 624.605 defines casualty insurance to include: vehicle insurance, liability insurance, workers' compensation and employer's liability insurance, burglary and theft, personal property floater, glass insurance, boiler and machinery insurance, leakage and fire extinguishing equipment insurance, creditor insurance, credit property insurance, malpractice, animal, elevator, entertainments, failure of certain institutions to record documents, failure to file certain personal property instruments, provision of medical, hospital, surgical and funeral, and benefits and accidental death or injury insurance as stated in certain paragraphs within the statute. The District transferred $302,538 to pay for casualty insurance as defined in Florida Statute 624.605. The District disagrees that the amount spent as casualty insurance should be treated as a questioned cost.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

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

Response – Agree
Status: Partially Corrected
The District will enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records evidencing this.

- In the 2009-2010 fiscal year, the District salary schedules do not specifically reflect compensation based on performance and the evaluation forms/method did not allow for the performance as a primary factor. However, the District did have the compensation for Title I schools (demographics), A+ Money and AP student test scores.
- In addition, the IPDP goals were set in collaboration with the principal and the teacher based on student performance and need as a target for classroom teachers but were not assigned a numerical value in the end goal.
- The District has just completed negotiations with the Union for the 2010-2011 fiscal year. As part of these negotiations, the District agreed to a 3-year contract in which development of a new evaluation tool (that takes student performance as a major factor) is to be developed by May 1, 2011. The salary schedules will then follow suit in compensation for performance.
- In 2009-2010, assistant principals did receive differentiated pay based on the school's grade/age range and received supplements for other duties such as data coach, web master, professional development coordinator. These supplements can be found in the District's approved salary schedule.

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

Response – Agree
Status: Partially Corrected.
Same response as Finding Number 5.

Finding No. 7: Controls over capital asset depreciation records could be enhanced.

Response – Agree
Status: Partially Corrected
The District has begun the necessary corrective action. The capital assets will be properly recorded, reconciled, and depreciation calculated.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 8: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statute, regarding notifying individuals of the need for and use of social security numbers.

Response – Agree
Status: Corrected

The District will continue efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.

- As noted in the finding, the matter was corrected at the District level for personnel, vendors and volunteers immediately upon notification.
- The schools will include the notification form in the student packets for new registrations and send the notifications out to existing students/parents at the beginning of the next school year (2011-2012), requesting parents sign and return to the school.

Finding No. 9: Improvements were needed to enhance the accountability and control over gasoline and diesel fuel usage.

Response - Agree
Status: Corrected

- The District has improved accountability and control over gasoline and diesel fuel usage. The District now documents that transaction reports and detailed County billings have been reviewed and approved by the individuals who obtained the fuel and by appropriate supervisory personnel.
- The vehicle ID keys require personnel ID keys.
- The Supervisor of Transportation is monitoring the monthly fuel reports, identifying, investigating, and documenting inconsistencies. The Supervisor of Transportation will notify appropriate individuals and department heads of any problems.

Finding No. 10: The District could improve its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Response - Agree
Status: Partially Corrected
The District enhanced control over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

- Effective Jan 1, 2010, students are only allowed to take 1 virtual co-enrolled course through adult education. Once a student finished one class, they are permitted to take another. The on-line teacher is now responsible for withdrawing all students who have not worked in 6 business days in the course. The director and the registrar are given a weekly withdraw update for verification. Effective July 1, 2010, the Adult Education Department eliminated Nova Net program that was used for co-enrolled students and started using FATDEC, which is used by a majority of Adult Education providers in Florida for Adult High School students.
- The calendar is checked for complete accuracy to ensure no holiday or other non-student contact days were not entered incorrectly into TERMS or the WDIS database. For years moving forward, the Director will finalize and approve the Adult Education calendar to ensure it matches with the School Board approved calendar.

The District will contact the Florida Department of Education for resolution of the misreported hours.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 11: Controls over after school day care and adult education program fees could be enhanced.

Response - Agree
Status: Partially Corrected

- The District will enhance its control procedures to ensure that all schools provide for an adequate separation of duties for the functions of assessing, collecting, depositing, and recording of after school day care fees.
- The District will establish appropriate after school day care program policies and procedures that include appropriate actions to follow-up on overdue accounts. The District has policies and procedures. These policies and procedures will be reviewed, augmented as necessary and enforced.
- The District will ensure that independent fee audits are performed for after school day care and adult education program fee collections.

Finding No. 12: The District could enhance procedures to identify employee reimbursements that represent taxable income to the employee, and ensure that such taxable benefits are reported to the Internal Revenue Service.

Response – Agree
Status: Partially Corrected

- The District has enhanced procedures to ensure that employee reimbursements that represent taxable income are properly reported to the IRS. All employee reimbursements now flow through the Payroll Department.
- The District will review employee reimbursements to possibly identify those reimbursements representing taxable income. If some reimbursements are taxable to the employee, the District will take the proper steps to resolve the matter.

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

Response - Agree
Status: Not Corrected
The District will develop a formal action plan that identifies resources that can be used to cover uninsured losses resulting from a named windstorm.

Finding No. 14: The Board had not adopted a formal plan for monitoring the financial condition of the Workers' Compensation / General Liability Internal Service Fund to help ensure that a favorable net asset balance is maintained to meet the fiscal demands of the self-insurance program.

Response - Agree
Status: Partially Corrected
The Board will develop a formal plan for monitoring the financial condition of the Worker's Compensation/General Liability Internal Service Fund. Currently, procedures are in place to monitor the plan when the financial statements are reviewed quarterly. The District is considering an increase in premium contributions to help ensure a favorable net asset balance is maintained to meet the fiscal demands of the insurance program.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 15: The District did not timely remove the information technology (IT) access privileges of some former employees.

Response – Agree
Status: Corrected
The account remained open to allow for critical network services running on the network to be able to run, but the password was changed on the former employee's account at the end of August 2010. Currently, the account has been changed to a service account.

The I.T. Department will revise its security policy, which will require that network service accounts are only to be used to run services on the network, thus, not dependent on I.T. Department staff personal user accounts.

Finding No. 16: The District's IT disaster recovery plan had not been tested.

Response: Agree
Status: Partially Corrected
The District will test the effectiveness of its disaster recovery plan on a periodic basis and establish an alternate site agreement with applicable consortium members.

The I.T. Department has emailed and had a phone conference with the Consortium fiscal agent, Columbia County School District. During the phone conference with Roger Noll, Director and Mike Kaht, Consortium Programmer, the IT Department came up with a reciprocal agreement document. The I.T. Department will forward to the A.G.'s office signed copies of document as soon as the districts sign off on the agreement.

The Monroe County School board approved the proposed Disaster Recovery Cooperative Agreement March 22, 2011. The Disaster Recovery Cooperative Agreement will go before the Columbia County School Board April 12, 2011 and once both school districts have ratified the agreement, the plan will be executed.

Also, the IT Department will schedule with the consortium programmer to demonstrate the ability to transfer data to the Columbia County School District as part of the disaster recovery plan. This test has been successfully performed with the following consortium districts: Hamilton, Bradford, and Jackson counties.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: The District did not adequately document charges to Special Education programs for coordinated early intervention services, resulting in $311,707.81 of questioned costs.

Response - Agree
Status: Partially Corrected
The District will establish procedures to ensure that coordinated early intervention services are provided for Special Education programs. The District will contact the Florida Department of Education regarding the allowability of the questioned costs.

Federal Awards Finding No. 2: 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.

Response – Agree
Status: Partially Corrected

To ensure that grant activities are properly managed and monitored and that Federal funds are spent for grant activities, the District has established procedures that disallow any school district employee to work for more than one after school program at a time. Master Schedules with all after school activities (SES, 21st CCLC, Boys and Girls Club), personnel, times, and room numbers are created each semester to ensure that employees' work times do not conflict with each other.

Federal Awards Finding No. 3: Procedures could be improved to provide for periodic personnel activity reports for employees who work on multiple activities or cost objectives.

Response - Agree
Status: 21St Century Program – Corrected
The PAR form recorded the time the employee worked between two programs as required for the 7.5 hour work day. The employee was also listed as the Director of short term ARRA SFSF funds. To allow one employee in the finance department to both enter the budget and report the expenditures would not be considered effective control and accountability for ARRA Funds. The Project Director was responsible for entering the budget and revisions for quarterly reports as listed on the FLDOE website. The minor quarterly budget revisions were performed after the 7.5 hour day.
Title II duties were acquired in March 2010 with few duties required. Approvals and signatures were acquired during a lunch hour, after the 7.5 hour day or during a break. The Personnel Information Form (PIF) now splits all duties among all funds and recorded on the PAR form to eliminate any duties having to be performed beyond the regular 7.5 work day.

Response - Agree
Status: Food Service Program - Corrected
Corrected this year with a time work sheet and where necessary, employees will prepare PAR forms and semi-annual certifications.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Finding No. 4: The District over reimbursed an employee $9,043 for educational expenses from Head Start program funds.

Response – Agree
Status: Corrected
Employee is reimbursing the District and all future payments to employees will flow through the Payroll Department.

Federal Awards Finding No. 5: Controls could be strengthened to ensure accurate meal counts are reported on monthly claims for reimbursements for the School Breakfast and National School Lunch Programs.

Response – Agree
Status: Partially Corrected
The District has strengthened internal controls to ensure accurate meal counts are reported on monthly claims for reimbursement. The Food Service personnel are now reconciling the lunch count data monthly and the year-to-date data prior to submission of the reimbursement claims.

Federal Awards Finding No. 6: Procedures should be enhanced as necessary to provide adequate control over tangible personal property used in Federal programs.

Response – Agree
Status: Partially Corrected
New employee was hired to take responsibility of property control. The records and procedures are being reviewed and the data is being reconciled.