REPORT NO. 2012-170
MARCH 2012

MONROE COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	District No.
Steven Pribramsky to 11-15-10	1
Robin Smith-Martin from 11-16-10	1
Andy Griffiths, Chair to 11-15-10, Vice Chair from 11-16-10	2
Dr. R. Duncan Mathewson, III	3
John Dick, Vice Chair to 11-15-10, Chair from 11-16-10	4
Dr. Debra S. Walker to 11-15-10	5
Ronald A. Martin from 11-16-10	5

Dr. Joseph P. Burke, Superintendent

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

The audit team leader was James A. Bell, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

MONROE COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness 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: **Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.**

ADDITIONAL MATTERS

Finding No. 2: **In December 2011, the District notified the Florida Department of Education that the District had experienced a significant decline in its General Fund financial condition; however, the financial condition may be further reduced by payments of questioned costs and additional Board premium contributions for the District's health and workers' compensation self-insurance programs, resulting in significantly less resources for emergencies and unforeseen situations.**

Finding No. 3: **The District could enhance the monthly financial reports provided to the Board.**

Finding No. 4: **District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).**

Finding No. 5: **The Board needed to enhance its 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 (2010), 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 (2010).**

Finding No. 6: **Controls over electronic funds transfers needed improvement.**

Finding No. 7: **Capital asset accountability and reporting procedures needed enhancement.**

Finding No. 8: **The District could enhance its controls relating to construction management.**

Finding No. 9: **Improvements were needed in controls over food service collections.**

Finding No. 10: **The District needed to enhance controls over after school day care and adult education program fees.**

Finding No. 11: **Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented, approved, and paid in accordance with Board intent.**

Finding No. 12: **A formal plan needs to be established to adequately fund the property self-insurance program for wind damage.**

Finding No. 13: **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. 14: **Improvements were needed to enhance the accountability and control of gasoline and diesel fuel usage.**

Finding No. 15: The District's information technology 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; Title I, Part A Cluster; Special Education Cluster; Twenty-First Century Community Learning Centers; State Fiscal Stabilization Fund Cluster; Education Jobs Fund; and Head Start Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Allocations of salaries and benefits charged to the Child Nutrition Cluster programs were not adequately documented.

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 $2,072.90 of questioned costs.

Federal Awards Finding No. 3: 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. 2011-170.**

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. 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.

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, 2011, 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 provides 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget 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 28, 2012

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 $6.4 million (or 3 percent).
- Total expenditures and other financing uses in all governmental funds exceeded revenues and other financing sources by $12 million. This occurred primarily because of certificates of participation (COPS) spending for the construction of a new middle school.
- Capital assets, net of depreciation, increased by $7.1 million to $276.9 million. The contributing factor for the increase was additions to capital assets totaling $13.6 million, which include additions of $12.2 million to construction in progress and $1.4 million to other capital assets. Depreciation expense for the year totaled $6.6 million.
- 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 District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

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

- 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 five 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.; the Montessori Island Charter School Inc., d/b/a Treasure Village Montessori School; and the Sigsbee Charter School, Inc., 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 – Other Fund, Special Revenue – Federal 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, the Special Revenue – Other Fund, and the Special Revenue – Federal Economic Stimulus Fund to demonstrate compliance with the budget.

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Statement of Net Assets

A summary statement of net assets, presented as Table 1, shows that the District's combined net assets increased 3 percent, or $6.4 million, to $222.4 million. Total assets reported were $349.4 million and total liabilities reported were $127 million. An increase in net assets is an indication that the District's financial health is improving. The analysis below focuses on the net assets of the governmental activities.

Table 1
Summary Statement of Net Assets
(In thousands)

	06-30-11	06-30-10	Increase (Decrease)
Current and Other Assets	$ 72,464	$ 87,120	$ (14,656)
Capital Assets	276,894	269,802	7,092
Total Assets	349,358	356,922	(7,564)
Long-Term Liabilities	120,557	132,558	(12,001)
Other Liabilities	6,444	8,433	(1,989)
Total Liabilities	127,001	140,991	(13,990)
Net Assets:			
Invested in Capital Assets - Net of Related Debt	195,923	188,382	7,541
Restricted	33,719	34,711	(992)
Unrestricted (Deficit)	(7,285)	(7,161)	(124)
Total Net Assets	$ 222,357	$ 215,932	$ 6,425

Total Assets. Total assets were $349.4 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 $70 million, or 96.6 percent of the current assets of $72.5 million.
- Capital assets – As shown in Table 2, capital assets totaled $276.9 million, which represents an increase of $7.1 million from the prior fiscal year.

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

	6-30-11	6-30-10	Increase (Decrease)
Land	$ 6,612	$ 6,612	$
Construction in Progress	13,344	1,100	12,244
Buildings and Improvements	249,477	252,921	(3,444)
Furniture, Fixtures and Equipment	3,326	4,182	(856)
Motor Vehicles	2,849	3,445	(596)
Property Under Capital Leases	1,034	1,310	(276)
Audio Visual Materials and Computer Software	252	232	20
Total	$ 276,894	$ 269,802	$ 7,092

Construction in progress increased by $12.2 million due to the construction of the new Horace O'Bryant Middle School. Additional information on the District's capital assets can be found in Notes 4 and 18 to the financial statements.

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

- Long-term liabilities totaled $120.6 million, of which $104.3 million (Table 3) relates to financing construction projects and the purchase of data processing equipment. The balance of $16.3 million includes $7.4 million for compensated absences, $3.7 million for other postemployment benefits payable, $3.4 million for estimated insurance claims payable, and $1.8 million for employee severance benefits payable.

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

	6-30-11	6-30-10	Increase (Decrease)
State School Bonds Payable	$ 1,010	$ 1,220	$ (210)
Revenue Bonds Payable	51,860	61,215	(9,355)
Obligations Under Capital Lease	86	643	(557)
Certificates of Participation Payable	51,307	53,117	(1,810)
Total	$ 104,263	$ 116,195	$ (11,932)

- The District's capital-related debt decreased by $11.9 million due to scheduled debt service payments.
- Current and other liabilities totaled $6.4 million and consisted primarily of payroll-related payables ($4.2 million), accounts payable ($1.6 million), and construction contracts retainage payable ($0.6 million).
- More detailed information about the District's long-term liabilities is presented in 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 shown in Table 4, total net assets increased by $6.4 million.

Table 4
Net Assets
(in thousands)

	6-30-11	6-30-10	Increase (Decrease)
Invested in Capital Assets, Net	$ 195,923	$ 188,382	$ 7,541
Restricted Net Assets	33,719	34,711	(992)
Unrestricted Net Assets Deficit	(7,285)	(7,161)	(124)
Total	$ 222,357	$ 215,932	$ 6,425

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 $7.5 million, during the 2010-11 fiscal year.

Restricted Net Assets. Net assets are reported as restricted when constraints are placed on the assets either externally by grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets decreased during the 2010-11 fiscal year by $1 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 $7.3 million at June 30, 2011, and did not significantly change from the balance at June 30, 2010.

Statement of Activities

A summary statement of activities, presented in Table 5, represents the revenues, expenses, and changes in net assets. Revenues totaled $118.4 million and expenses totaled $112 million, resulting in an increase in net assets of $6.4 million.

2011

Table 5
Summary Statement of Activities
(in thousands)

	2010-11	2009-10	Increase (Decrease)
Program Revenues			
Charges for Services	$ 1,891	$ 1,967	$ (76)
Operating Grants and Contributions	2,543	2,141	402
Capital Grants and Contributions	846	505	341
General Revenues			
Property Taxes Levied for Operational Purposes	66,967	64,150	2,817
Property Taxes Levied for Capital Projects	7,819	11,110	(3,291)
Local Sales Taxes	11,286	11,695	(409)
Grants and Contributions - Not Restricted	25,667	23,682	1,985
Unrestricted Investment Earnings	265	517	(252)
Gain on Sale of Capital Assets		3,744	(3,744)
Miscellaneous	1,124	3,260	(2,136)
Total Revenues	118,408	122,771	(4,363)
Functions/Program Expenses			
Instruction	62,785	60,464	2,321
Pupil Personnel Services	4,835	5,657	(822)
Instructional Media Services	1,082	955	127
Instruction and Curriculum Development Services	2,564	2,596	(32)
Instructional Staff Training	1,317	1,431	(114)
Instruction Related Technology	1,103	1,249	(146)
Board of Education	961	839	122
General Administration	926	931	(5)
School Administration	4,941	5,209	(268)
Facilities Acquisition and Construction	2,139	2,399	(260)
Fiscal Services	895	910	(15)
Food Services	3,247	3,157	90
Central Services	1,022	3,936	(2,914)
Pupil Transportation Services	3,917	4,158	(241)
Operation of Plant	7,153	8,088	(935)
Maintenance of Plant	2,979	3,339	(360)
Administrative Technology Services	389	382	7
Community Services	781	762	19
Unallocated Interest on Long-term Debt	2,837	3,434	(597)
Unallocated Depreciation Expense	6,110	6,129	(19)
Total Functions/Program Expenses	111,983	116,025	(4,042)
Increase (Decrease) in Net Assets	$ 6,425	$ 6,746	$ (321)

Revenues. Revenues totaled $118.4 million, which is a decrease of $4.4 million (3.6 percent) from the $122.8 million for the 2009-10 fiscal year. Property tax revenue for capital projects decreased by $3.3 million due to declining property values and a decrease of 0.10 mills levied for local capital improvements. The effect of declining property values on the property tax revenue for operational purposes was offset by an increase in new taxable value (new construction, improvement, etc.), 0.25 mills levied for critical operating needs in the 2010-11 fiscal year, and a 0.2865 mill increase in the remaining nonvoted school tax levy, resulting in a $2.8 million increase in property tax revenue for operational purposes.

Expenses. Total expenses decreased by $4 million, or 3.5 percent, from the $116.0 million expended for the 2009-10 fiscal year. The decrease in total expenses was due mainly to cost control measures to contain expenses due to declining revenue. Instruction expenses increased by $2.3 million due mainly to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus fund program activities.

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 2010-11 fiscal year.
- The Florida Department of Education has directed that the Federal Economic Stimulus Fund be reported as a major fund.
- Management also has the discretion to present funds not meeting these criteria as major funds if it may be of public interest or to maintain consistency in financial reporting.
- The District reports six major funds for the 2010-11 fiscal year:
  - General Fund
  - Special Revenue – Other Fund
  - Special Revenue – Federal Economic Stimulus Fund
  - Debt Service – Other Fund
  - Capital Projects – Capital Improvement Section 1011.71(2) Fund
  - Capital Projects – Other Fund

2011
Table 6
Summary Statement of Revenues, Expenditures, and Changes in Fund Balance
(in thousands)

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service- Other Fund	Capital Projects - Capital Improvement Section 1011.71(2) Fund	Capital Projects - Other Funds	Other Governmental Funds	Total Governmental Funds
Total Revenues	$ 82,675	$ 6,498	$ 5,863	$ 90	$ 7,821	$ 11,301	$ 4,153	$ 118,401
Total Expenditures	(85,346)	(6,498)	(5,863)	(13,792)	(2,151)	(13,144)	(3,630)	(130,424)
Other Financing Sources (Uses)	4,098			16,239	(8,373)	(11,433)	(523)	8
Net Changes in Fund Balances	1,427			2,537	(2,703)	(13,276)		(12,015)
Fund Balances, Beginning	4,037			9,748	11,263	48,083	724	73,855
Fund Balances, Ending	$ 5,464	$ 0.00	$ 0.00	$ 12,285	$ 8,560	$ 34,807	$ 724	$ 61,840

The District reported 75.5 percent of total revenues from local sources, including funds reported from property tax levies and the local sales tax revenues. Federal funds accounted for 13 percent of total revenues reported, while State funds contributed 11.5 percent. Governmental fund revenues totaled $118.4 million, which is an increase of $0.2 million over the 2009-10 fiscal year. A summary of the District's funding sources are shown in Table 7 below.

Table 7
Revenues
(in thousands)

	2011	2010	Increase (Decrease)
Federal Direct	$ 1,821	$ 1,733	$ 88
Federal Through State and Local	13,599	12,698	901
State	13,638	12,492	1,146
Local	89,343	91,291	(1,948)
Total	$ 118,401	$ 118,214	$ 187

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned plus assigned fund balance is $4.6 million while the total fund balance is $5.5 million. The total fund balance increased by $1.4 million during the fiscal year. Key factors contributing to this change are as follows:

- Revenues increased $3 million mainly from increases in local funding of $2.1 million and State revenue of $0.9 million.
- Expenditures decreased $1.8 million. The decrease in General Fund expenditures was partially offset by a corresponding increase in expenditures of Federal stimulus funding in the Special Revenue – Federal 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 – Other Fund accounts for the financial resources of certain Federal grant programs. Revenues and expenditures totaled $6.5 million each, which were mainly used for instructional salaries and benefits for the 2010-11 fiscal year. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Special Revenue - Federal Economic Stimulus Fund accounts for certain Federal grant program resources related to ARRA and the Education Jobs Fund programs. Revenues and expenditures totaled $5.9 million each, which were mainly used for instructional salaries and benefits for the 2010-11 fiscal year. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Debt Service – Other Fund had a total fund balance of $12.3 million, which is restricted for debt service. The significant activity during the fiscal 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 $8.6 million, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by $2.7 million because of increased construction activity and a decrease in the property tax levy during the 2010-11 fiscal year.

The Capital Projects – Other Fund has a total fund balance of $34.8 million, which is restricted for the acquisition, construction, and maintenance of capital assets. It should be noted that $3.5 million has been encumbered for specific projects. The fund balance decreased $13.3 million in the current fiscal year. The decrease in fund balance for the current year is mainly because of the use of certificates of participation proceeds received in the prior fiscal year for the construction of a new middle school.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the fiscal year, the District revised its General Fund budget several times. These budget amendments fall primarily into three categories. The first category includes amendments and supplemental appropriations that were approved periodically throughout the fiscal year to record new grants. The second category includes changes in revenue estimates from the State of Florida Education Finance Program (FEFP) during the fiscal year. Finally, the Board approved transfers between expenditure functions and objects. There were no significant variances between the original and final budget amounts or between the final budget and actual amounts except for a 5.3 percent increase in budgeted expenditures. This increase primarily affected the instruction and maintenance functions. The instruction function budget increased due to charter school increased funding for growth in FTE and ARRA funding, terminal leave payouts, employee raises, new textbook adoption, and sixth period supplements. The maintenance function budget increased because of Public Education Capital Outlay and capital outlay millage funds transferred to the General Fund for maintenance salaries and benefits.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

As noted in Note 22 to the financial statements, the State of Florida, Division of Emergency Management requested the repayment of $482,272 regarding overpayments to the District of Stafford Act reimbursement funding arising out of the Hurricane Georges disaster. This repayment will negatively impact the General Fund in the 2011-12 fiscal year.

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 and required local effort property tax levies 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 and property tax could directly impact future District revenue allocations.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash	$ 33,026,466.00	$ 1,811,640.00
Investments	32,953,460.12	
Accounts Receivable	559,796.45	91,608.00
Due from Other Agencies	946,041.33	2,902.00
Inventories	50,691.65	
Prepaid Items	475,134.41	77,373.00
Other Assets		16,500.00
Restricted Investments	4,010,698.23	
Deferred Charges	441,476.59	
Capital Assets:		
Nondepreciable Capital Assets	19,955,508.22	2,869,272.00
Depreciable Capital Assets, Net	256,938,716.06	4,576,631.00
TOTAL ASSETS	$ 349,357,989.06	$ 9,445,926.00
LIABILITIES		
Salaries and Benefits Payable	$ 3,169,765.14	$ 318,406.00
Payroll Deductions and Withholdings	1,060,835.31	
Accounts Payable	1,484,370.53	250,684.00
Sales Tax Payable	172.93	
Construction Contracts Payable - Retainage	582,674.47	
Due to Other Agencies	18,515.75	
Deposits Payable	24,543.14	
Deferred Revenue	102,847.06	
Long-Term Liabilities:		
Portion Due Within One Year	15,211,264.27	
Portion Due After One Year	105,346,213.98	95,845.00
Total Liabilities	127,001,202.58	664,935.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	195,923,231.49	7,445,903.00
Restricted for:		
State Required Carryover Programs	193,670.28	
Debt Service	12,311,415.74	
Capital Projects	20,620,072.88	
Food Service	593,368.70	
Unrestricted	(7,284,972.61)	1,335,088.00
Total Net Assets	222,356,786.48	8,780,991.00
TOTAL LIABILITIES AND NET ASSETS	$ 349,357,989.06	$ 9,445,926.00

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, 2011

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 62,785,275.68	$ 40,719.97	$	$
Pupil Personnel Services	4,835,421.39		393,441.56	
Instructional Media Services	1,082,039.09			
Instruction and Curriculum Development Services	2,564,134.13			
Instructional Staff Training Services	1,316,911.75			
Instruction Related Technology	1,102,466.22			
School Board	960,470.59			
General Administration	926,134.00			
School Administration	4,940,773.18			
Facilities Acquisition and Construction	2,139,186.23			128,882.56
Fiscal Services	895,111.95			
Food Services	3,246,769.74	1,159,969.62	2,149,708.05	
Central Services	1,022,264.77			
Pupil Transportation Services	3,917,151.93	82,878.19		
Operation of Plant	7,153,402.05			
Maintenance of Plant	2,978,823.35			451,753.00
Administrative Technology Services	389,370.78			
Community Services	780,799.55	607,124.92		
Unallocated Interest on Long-Term Debt	2,837,095.09			265,724.41
Unallocated Depreciation/Amortization Expense*	6,109,528.23			
Total Primary Government	$ 111,983,129.70	$ 1,890,692.70	$ 2,543,149.61	$ 846,359.97
Component Units				
Charter Schools	$ 6,616,304.00	$ 184,071.00	$ 348,421.00	$ 74,635.00

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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental Activities	Units
$ (62,744,555.71)	$
(4,441,979.83)	
(1,082,039.09)	
(2,564,134.13)	
(1,316,911.75)	
(1,102,466.22)	
(960,470.59)	
(926,134.00)	
(4,940,773.18)	
(2,010,303.67)	
(895,111.95)	
62,907.93	
(1,022,264.77)	
(3,834,273.74)	
(7,153,402.05)	
(2,527,070.35)	
(389,370.78)	
(173,674.63)	
(2,571,370.68)	
(6,109,528.23)	
(106,702,927.42)	
	(6,009,177.00)
66,966,324.62	
7,819,121.52	
11,286,363.02	
25,667,270.74	13,635,312.00
265,355.97	729.00
1,124,213.46	126,317.00
113,128,649.33	13,762,358.00
6,425,721.91	7,753,181.00
215,931,064.57	1,027,810.00
$ 222,356,786.48	$ 8,780,991.00

MONROE COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash	$ 5,476,181.61	$ 445,422.76	$ 1,057.75	$ 86,370.01
Investments	10,225.76			8,187,785.91
Accounts Receivable	537,262.84			
Due from Other Funds	3,616,427.48			
Due from Other Agencies		548,978.62	299,275.15	
Prepaid Items	475,134.41			
Restricted Investments				4,010,698.23
Inventories	22,770.41			
TOTAL ASSETS	$ 10,138,002.51	$ 994,401.38	$ 300,332.90	$ 12,284,854.15
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	$ 3,169,765.14	$	$	$
Payroll Deductions and Withholdings	940,835.79	62,395.28	43,843.48	
Accounts Payable	531,486.23	48,313.30		
Sales Tax Payable	172.93			
Construction Contracts Payable - Retainage				
Due to Other Funds		873,264.12	255,872.42	
Due to Other Agencies	7,091.35	10,428.68	617.00	
Deposits Payable	24,543.14			
Deferred Revenue				
Total Liabilities	4,673,894.58	994,401.38	300,332.90	
Fund Balances:				
Nonspendable:				
Inventory	22,770.41			
Prepaid Amounts	475,134.41			
Total Nonspendable Fund Balance	497,904.82			
Restricted for:				
State Required Carryover Programs	193,670.28			
Debt Service				12,284,854.15
Capital Projects				
Food Service				
Total Restricted Fund Balance	193,670.28			12,284,854.15
Committed to Contractual Agreements	125,277.81			
Assigned to Contracts	112,612.07			
Unassigned Fund Balance	4,534,642.95			
Total Fund Balances	5,464,107.93			12,284,854.15
TOTAL LIABILITIES AND FUND BALANCES	$ 10,138,002.51	$ 994,401.38	$ 300,332.90	$ 12,284,854.15

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

Capital Projects - Capital Improvement Section 1011.71(2) Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 8,547,765.65	$ 13,225,634.16	$ 869,843.96	$ 28,652,275.90
189,084.33	24,431,550.39	26,561.59	32,845,207.98
			537,262.84
			3,616,427.48
		97,787.56	946,041.33
			475,134.41
			4,010,698.23
		27,921.24	50,691.65
$ 8,736,849.98	$ 37,657,184.55	$ 1,022,114.35	$ 71,133,739.82
$	$	$	$ 3,169,765.14
		13,387.04	1,060,461.59
69,311.23	7,382.95	9,821.30	666,315.01
			172.93
	582,674.47		582,674.47
107,090.85	2,157,959.31	274,411.01	3,668,597.71
		378.72	18,515.75
			24,543.14
	102,847.06		102,847.06
176,402.08	2,850,863.79	297,998.07	9,293,892.80
		27,921.24	50,691.65
			475,134.41
		27,921.24	525,826.06
			193,670.28
		26,561.59	12,311,415.74
8,560,447.90	34,806,320.76	104,185.99	43,470,954.65
		565,447.46	565,447.46
8,560,447.90	34,806,320.76	696,195.04	56,541,488.13
			125,277.81
			112,612.07
			4,534,642.95
8,560,447.90	34,806,320.76	724,116.28	61,839,847.02
$ 8,736,849.98	$ 37,657,184.55	$ 1,022,114.35	$ 71,133,739.82

MONROE COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total Fund Balances - Governmental Funds		$ 61,839,847.02
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.		276,894,224.28
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.		441,476.59
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.		332,243.84
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Obligations Under Capital Leases	$ 86,351.15	
Bonds Payable	52,870,000.00	
Certificates of Participation Payable	51,307,000.00	
Other Postemployment Benefits Payable	3,657,000.00	
Compensated Absences Payable	7,449,670.01	
Employee Severance Benefits Payable	1,780,984.09	(117,151,005.25)
Total Net Assets - Governmental Activities		$ 222,356,786.48

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, 2011

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	$ 380,545.78	$ 1,440,243.33	$	$
Federal Through State and Local	563,871.07	5,057,558.92	5,863,653.55	
State	12,759,634.04			
Local:				
Property Taxes	66,966,324.62			
Local Sales Taxes				
Charges for Services - Food Service				
Miscellaneous	2,004,411.24			89,859.63
Total Revenues	82,674,786.75	6,497,802.25	5,863,653.55	89,859.63
Expenditures				
Current - Education:				
Instruction	52,886,050.95	3,522,566.18	5,374,589.94	
Pupil Personnel Services	3,654,296.58	1,034,357.13	64,965.91	
Instructional Media Services	1,063,176.99			
Instruction and Curriculum Development Services	1,425,926.28	1,022,587.29	71,361.83	
Instructional Staff Training Services	473,162.98	755,826.77	69,498.83	
Instruction Related Technology	1,055,474.79		27,217.05	
School Board	952,525.43			
General Administration	785,563.07	81,662.87	44,842.06	
School Administration	4,846,293.93	6,247.43		
Facilities Acquisition and Construction	585,595.94			
Fiscal Services	880,940.03			
Food Services	39,658.79		275.04	
Central Services	2,015,165.46	535.50		
Pupil Transportation Services	3,397,057.47	19,637.92		
Operation of Plant	7,087,650.45	9,400.98		
Maintenance of Plant	2,932,523.00	334.25		
Administrative Technology Services	382,289.79			
Community Services	771,383.87	787.67		
Fixed Capital Outlay:				
Facilities Acquisition and Construction	5,250.00			
Other Capital Outlay	47,399.39	43,858.26	210,902.89	
Debt Service:				
Principal				11,165,000.00
Interest and Fiscal Charges	58,394.69			2,626,715.21
Total Expenditures	85,345,779.88	6,497,802.25	5,863,653.55	13,791,715.21
Excess (Deficiency) of Revenues Over Expenditures	(2,670,993.13)			(13,701,855.58)
Other Financing Sources (Uses)				
Transfers In	4,228,450.09			16,238,605.39
Insurance Loss Recoveries	7,568.26			
Transfers Out	(137,660.57)			
Total Other Financing Sources (Uses)	4,098,357.78			16,238,605.39
Net Change in Fund Balances	1,427,364.65			2,536,749.81
Fund Balances, Beginning	4,036,743.28			9,748,104.34
Fund Balances, Ending	$ 5,464,107.93	$ 0.00	$ 0.00	$ 12,284,854.15

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

Capital Projects - Capital Improvement Section 1011.71(2) Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$	$ 1,820,789.11
		2,113,738.05	13,598,821.59
		878,152.58	13,637,786.62
7,819,121.52			74,785,446.14
	11,286,363.02		11,286,363.02
		1,159,969.62	1,159,969.62
2,229.44	14,426.98	1,084.11	2,112,011.40
7,821,350.96	11,300,790.00	4,152,944.36	118,401,187.50
			61,783,207.07
			4,753,619.62
			1,063,176.99
			2,519,875.40
			1,298,488.58
			1,082,691.84
			952,525.43
			912,068.00
			4,852,541.36
923,772.86	619,327.12		2,128,695.92
			880,940.03
		3,176,560.09	3,216,493.92
			2,015,700.96
			3,416,695.39
			7,097,051.43
			2,932,857.25
			382,289.79
			772,171.54
543,743.13	12,516,164.91	181,719.84	13,246,877.88
99,447.41	8,500.66		410,108.61
556,859.47		210,000.00	11,931,859.47
27,306.53		61,610.57	2,774,027.00
2,151,129.40	13,143,992.69	3,629,890.50	130,423,963.48
5,670,221.56	(1,843,202.69)	523,053.86	(12,022,775.98)
79,568.00	58,092.57		20,604,716.05
			7,568.26
(8,452,563.01)	(11,491,495.47)	(522,997.00)	(20,604,716.05)
(8,372,995.01)	(11,433,402.90)	(522,997.00)	7,568.26
(2,702,773.45)	(13,276,605.59)	56.86	(12,015,207.72)
11,263,221.35	48,082,926.35	724,059.42	73,855,054.74
$ 8,560,447.90	$ 34,806,320.76	$ 724,116.28	$ 61,839,847.02

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, 2011

Net Change in Fund Balances - Governmental Funds		$ (12,015,207.72)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year.		7,092,722.59
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period.		
Certificates of Participation	$ 1,810,000.00	
Bonds Payable	9,565,000.00	
Obligations Under Capital Leases	556,859.47	11,931,859.47
Deferred charges associated with long-term debt issued in the current fiscal year are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net decrease in deferred charges during the current fiscal year.		
Deferred Charges, June 30, 2011	$ 441,476.59	
Deferred Charges, June 30, 2010	(504,544.68)	(63,068.09)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.		206,796.36
Employee severance benefits and other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the employee severance benefits and the net increase in other postemployment benefits liability for the current period.		
Employee Severance Benefits Payable	$ 1,005,811.86	
Other Postemployment Benefits Payable	(946,000.00)	59,811.86
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.		(787,192.56)
Change in Net Assets - Governmental Activities		$ 6,425,721.91

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, 2011

		Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	4,374,190.10
Investments		41,100.33
Accounts Receivable		22,533.61
Due From Other Funds		52,170.23
Total Current Assets		4,489,994.27
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		67,151.81
TOTAL ASSETS	$	4,557,146.08
LIABILITIES		
Current Liabilities:		
Payroll Deductions and Withholdings	$	373.72
Accounts Payable		818,055.52
Estimated Insurance Claims Payable		1,666,260.00
Total Current Liabilities		2,484,689.24
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		1,740,213.00
NET ASSETS		
Unrestricted		332,243.84
TOTAL LIABILITIES AND NET ASSETS	$	4,557,146.08

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, 2011

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Contributions	$ 13,514,359.87
Insurance Loss Recoveries	598,972.75
Other Operating Revenues	15,043.68
Total Operating Revenues	14,128,376.30
OPERATING EXPENSES	
Salaries	172,485.00
Employee Benefits	383,550.34
Purchased Services	1,652,987.92
Materials and Supplies	1,735.11
Insurance Claims	12,704,906.34
Total Operating Expenses	14,915,664.71
Operating Loss	(787,288.41)
NONOPERATING REVENUES	
Interest Income	95.85
Change in Net Assets	(787,192.56)
Total Net Assets - Beginning	1,119,436.40
Total Net Assets - Ending	$ 332,243.84

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, 2011

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	$ 13,441,131.36
Cash Received from Insurance Loss Recoveries	598,972.75
Cash Received from Other Operating Revenues	15,043.68
Cash Payments to Employees for Services	(555,661.62)
Cash Payments to Suppliers for Goods and Services	(1,566,883.54)
Cash Payments for Insurance Claims	(12,506,481.34)
Net Cash Used by Operating Activities	(573,878.71)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(95.85)
Interest Income	95.85
Net Cash Provided by Investing Activities	
Net Decrease in Cash	(573,878.71)
Cash, Beginning	4,948,068.81
Cash, Ending	$ 4,374,190.10

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

Operating Loss	$ (787,288.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(22,533.61)
Increase in Due From Other Funds	(52,170.23)
Decrease in Due from Other Agencies	1,475.33
Increase in Deductions and Witholdings	373.72
Increase in Accounts Payable	87,839.49
Increase in Estimated Insurance Claims Payable	198,425.00
Total Adjustments	213,409.70
Net Cash Used by Operating Activities	$ (573,878.71)

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, 2011

	Pension Trust Fund	Agency Funds
ASSETS		
Cash	$ 187,827.70	$ 1,322,162.00
Investments	7,742.60	
TOTAL ASSETS	$ 195,570.30	$ 1,322,162.00
LIABILITIES		
Internal Accounts Payable	$	$ 1,322,162.00
NET ASSETS		
Assets Held in Trust for Pension Benefits	195,570.30	
TOTAL LIABILITIES AND NET ASSETS	$ 195,570.30	

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2011

		Pension Trust Fund
ADDITIONS		
Contributions:		
Employer	$	50,000.00
Investment Earnings:		
Interest		11.30
Total Additions		50,011.30
DEDUCTIONS		
Benefits Paid to Participants		48,855.21
Purchased Services		854.73
Total Deductions		49,709.94
Change in Net Assets		301.36
Net Assets - Beginning		195,268.94
Net Assets - Ending	$	195,570.30

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

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

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

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

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

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

  The District entered into charters with each of its charter schools. The charter schools are the Montessori Elementary Charter School, Inc.; the Montessori Island Charter School, Inc., d/b/a Treasure Village Montessori School; Big Pine Elementary Academy, Inc. and Sigsbee Charter School, 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 prekindergarten through eight. Through a uniquely prepared environment and the use of special didactic materials, the students' progress through individual educational programs following their own interests to become creative thinkers.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

The mission of the Big Pine Elementary Academy, Inc. is to provide students in grades prekindergarten through seven 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 mission of Sigsbee Charter School is to function as an innovative, engaging elementary school that captivates students' interest through marine studies, environmental education focus. Capitalizing on its beautiful aquatic surroundings and 11 acres of green space, Sigsbee offers hands-on integrated learning experiences that teach students to be thoughtful stewards of the environment.

The financial data reported on the accompanying statements was derived from the charter schools' audited financial statements for the fiscal year ended June 30, 2011. The audit reports are filed in the District's administrative offices.

- **Basis of Presentation**

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

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

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

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

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

The District reports the following major governmental funds:

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Debt Service – Other Fund – to account for debt service related to construction borrowing.
- 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, and debt service payments on capital leases for 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. Example of resources include: local sales tax, certificate 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 GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

The charter schools, 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.

Investments consist of amounts placed in 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, 2011, 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 0.78965331 at June 30, 2011. 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 Israel ST US Government Guaranteed Zero Coupon 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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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.

- **Prepaid Items**

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

- **Capital Assets**

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

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

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

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

- **Long-Term Liabilities**

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

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

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

- **State Revenue Sources**

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 restricted in the governmental fund financial statements for the unexpended 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 2010 tax levy on September 7, 2010. 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.

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

- **Capital Outlay Surtax**

On August 31, 2004, the voters of Monroe County (County) approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2006. The surtax proceeds are used to replace portable classrooms; for the renovation, rebuilding, or remodeling of District school structures

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 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 asset balance at June 30, 2011:

	Beginning Net Assets	Change in Net Assets	Ending Net Assets
Workers' Compensation / General Liability Self-Insurance Fund	$ (615,306.29)	$ (365,971.77)	$ (981,278.06)

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 (CONTINUED)
JUNE 30, 2011

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME	31 Day Average	$ 8,473,050.31
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	667,687.66
Debt Service Accounts	6 Months	26,561.59
Fidelity Institutional Money Market Government Portfolio - Class I (1) (2)	60 Days or Less Weighted Average	25,633,321.90
Fidelity Institutional Money Market Treasury Portfolio - Class I	60 Days or Less Weighted Average	279,560.02
Fidelity Institutional Money Market Treasury Portfolio - Class III	60 Days or Less Weighted Average	206.27
Israel ST US Government Guaranteed Zero Coupon Notes (1)	November 15, 2011	1,891,513.20
Total Investments		$ 36,971,900.95

Notes: (1) A portion ($1,893,051.23) of these investments are held by a paying agent in connection with the Qualified Zone Academy Bonds financing arrangement (See Note 7).

(2) A portion ($2,117,647.00) of these investments are held by a paying agent in connection with the Qualified School Construction Bonds financing arrangement (See Note 7).

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The Policy limits current short-term funds investments to a maximum of one year, and investments of bond reserves, construction moneys, and other core funds to a term appropriate to the need for moneys and in accordance with debt covenants, but not to exceed three years.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, 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;

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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; United States Government securities; SEC registered money market funds interest-bearing time deposits or saving accounts; securities of, or other interest in, an open-ended or closed-ended management type investment company or investments trust registered under the Investment Company Act of 1940; and other investments as authorized by law and not prohibited by the investment policy.

- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The Fidelity Institutional Money Market Government Portfolio – Class I normally invests at least 80 percent of assets in United States Government securities and repurchase agreements for those securities. As of June 30, 2011, the District's investments in the Fidelity Institutional Money Market Government Portfolio – Class I were rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investors Service.
- The Fidelity Institutional Money Market Treasury Portfolio – Class I and the Fidelity Institutional Money Market Treasury Portfolio – Class III normally invests at least 80 percent of assets in United States Treasury securities and repurchase agreements for those securities. As of June 30, 2011, the District's investments in the Fidelity Institutional Money Market Treasury Portfolio - Class I and Fidelity Institutional Money Market Treasury Portfolio – Class III were rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investors Service.
- The District's investment in the Israel ST US Government Guaranteed Zero Coupon Notes are rated Aaa by Moody's Investors Service and are not rated by Standard & Poor's.

Custodial Credit Risk

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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	12,243,686.92		13,343,598.89
Total Capital Assets Not Being Depreciated	7,711,821.30	12,243,686.92		19,955,508.22
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	12,583,993.17	573,865.13		13,157,858.30
Buildings and Fixed Equipment	282,552,347.48	429,325.83		282,981,673.31
Furniture, Fixtures, and Equipment	18,590,663.07	350,019.35		18,940,682.42
Motor Vehicles	7,771,343.69	20,298.00		7,791,641.69
Property Under Capital Leases	3,249,835.17			3,249,835.17
Audio Visual Materials and Computer Software	3,893,057.88	39,791.26		3,932,849.14
Total Capital Assets Being Depreciated	328,641,240.46	1,413,299.57		330,054,540.03
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	7,744,482.84	660,190.07		8,404,672.91
Buildings and Fixed Equipment	34,470,930.21	3,786,770.61		38,257,700.82
Furniture, Fixtures, and Equipment	14,409,045.08	1,205,150.39		15,614,195.47
Motor Vehicles	4,326,269.81	616,405.08		4,942,674.89
Property Under Capital Leases	1,939,950.54	275,471.00		2,215,421.54
Audio Visual Materials and Computer Software	3,660,881.59	20,276.75		3,681,158.34
Total Accumulated Depreciation	66,551,560.07	6,564,263.90		73,115,823.97
Total Capital Assets Being Depreciated, Net	262,089,680.39	(5,150,964.33)		256,938,716.06
Governmental Activities Capital Assets, Net	$ 269,801,501.69	$ 7,092,722.59	$ 0.00	$ 276,894,224.28

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 454,735.67
Unallocated	6,109,528.23
Total Depreciation Expense - Governmental Activities	$ 6,564,263.90

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note, Series 2010	$ 0	$ 10,000,000	$ 10,000,000	$ 0

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

6. OBLIGATIONS UNDER CAPITAL LEASES

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

	Asset Balances
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
2012	$ 90,017.06	$ 86,351.15	$ 3,665.91
Total Minimum Lease Payments	$ 90,017.06	$ 86,351.15	$ 3,665.91

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

On December 29, 2005, the master financing arrangement was amended and the Corporation issued Certificates of Participation, Qualified Zone Academy Bonds (QZAB), Series 2005, in the amount of $4,842,000 for heating, ventilation, and conditioning; electrical; and general facilities improvements at several District properties. Under 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 obligation to be issued by the school district with a Federal subsidy for interest. The Series 2010A Certificates were issued by the Corporation as direct pay bonds whereby the District pays interest of 5.7 percent and receives a 5.49 percent interest subsidy which is paid directly to the District by the U.S Treasury. Under the terms of the trust agreement, the District is required to make annual payments of $2,117,647 each, which are deposited with a trustee and invested in accordance with a trust agreement until maturity and, when combined with interest earnings, will be sufficient to pay off the principal balance in full, at maturity on June 1, 2027.

As a condition of the financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of $1 per year. The initial term of the lease is 25 years commencing on October 15, 1996 and ending August 1, 2021. A separate ground lease commencing on June 1, 2010 and ending on June 1, 2032, was given to the corporation for the facilities being financed by the Series 2010A Certificates. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and

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to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreements for the benefit of the securers of the Certificates for a period of time specified by the arrangements which may be up to 30 years from the date of inception of the arrangement.

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

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

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
2012	$ 2,334,850.00	$ 1,880,000.00	$ 454,850.00
2013	2,334,212.50	1,950,000.00	384,212.50
2014	2,332,150.00	2,025,000.00	307,150.00
2015	2,329,550.00	2,105,000.00	224,550.00
2016	2,330,806.25	2,195,000.00	135,806.25
2017-2021	5,536,781.25	5,152,000.00	384,781.25
2022-2026	378,000.00		378,000.00
2027	36,075,600.00	36,000,000.00	75,600.00
Total Minimum Lease Payments	$ 53,651,950.00	$ 51,307,000.00	$ 2,344,950.00

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8. BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2002B	$ 895,000	4.000 - 5.375	2015
Series 2005A, Refunding	115,000	5.0	2017
District Sales Tax Revenue Bonds:			
Series 2005	39,630,000	3.25 - 5.00	2015
Series 2007	12,230,000	3.98	2015
Total Bonds Payable	$ 52,870,000		

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

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

  The District has pledged a combined total of $57,077,950.17 of discretionary surtax sales revenues (sales tax revenues) in connection with the Series 2005 Sales Tax Revenue Bond issue described above. During the 2010-11 fiscal year, the District recognized sales tax revenues totaling $11,286,363 and expended $11,443,628, (101.4 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt, or

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	16,500.00	15,000.00	1,500.00
2017-2018	35,750.00	35,000.00	750.00
Total State School Bonds	1,147,037.50	1,010,000.00	137,037.50
District Sales Tax Revenue Bonds:			
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	57,077,950.17	51,860,000.00	5,217,950.17
Total	$ 58,224,987.67	$ 52,870,000.00	$ 5,354,987.67

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
Estimated Insurance Claims Payable	$ 3,208,048.00	$ 12,704,906.34	$ 12,506,481.34	$ 3,406,473.00	$ 1,666,260.00
Obligations Under Capital Leases	643,210.62		556,859.47	86,351.15	86,351.15
Bonds Payable	62,435,000.00		9,565,000.00	52,870,000.00	9,890,000.00
Certificates of Participation Payable	53,117,000.00		1,810,000.00	51,307,000.00	1,880,000.00
Compensated Absences Payable	7,656,466.37	569,259.85	776,056.21	7,449,670.01	647,037.42
Employee Severance Benefits Payable	2,786,795.95		1,005,811.86	1,780,984.09	1,041,615.70
Other Postemployment Benefits Payable	2,711,000.00	2,569,000.00	1,623,000.00	3,657,000.00	
Total Governmental Activities	$ 132,557,520.94	$ 15,843,166.19	$ 27,843,208.88	$ 120,557,478.25	$ 15,211,264.27

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 Note 19 and 20.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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	Payables
Major:		
General	$ 3,616,427.48	$
Special Revenue:		
Other		873,264.12
Federal Economic Stimulus		255,872.42
Capital Projects:		
Capital Improvement Section 1011.71(2)		107,090.85
Other		2,157,959.31
Nonmajor Governmental		274,411.01
Internal Service	52,170.23	
Total	$ 3,668,597.71	$ 3,668,597.71

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 4,228,450.09	$ 137,660.57
Debt Service		
Other	16,238,605.39	
Capital Projects:		
Capital Improvement Section 1011.71(2)	79,568.00	8,452,563.01
Other	58,092.57	11,491,495.47
Non Major Govermental		522,997.00
Total	$ 20,604,716.05	$ 20,604,716.05

Inrerfund transfers represent permanent transfer of moneys between funds. The transfers out of the Capital Projects - Capital Improvement Section 1011.72(2) Fund to the General Fund were to reimbursed the General Fund for maintenance, capital expenditures, and property casualty insurance premiums recorded in

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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the General Fund. Additionally, funds were transferred from Capital Projects - Capital Improvement Section 1011.72(2) Fund and the Capital Projects - Other Funds to the Debt Service - Other Funds to make debt service payments for the certificates of participation and sales tax revenue bonds.

11. FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

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

- **Nonspendable**

  The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory and prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories and prepaid items as nonspendable.

- **Restricted**

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

- **Committed**

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District reports amounts that are contractually binding as approved by the Board as a committed fund balance at June 30, 2011.

- **Assigned**

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

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- **Unassigned**

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

12. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2010-11 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	$ 8,925,079.00
Florida Education Finance Program	1,206,970.00
Workforce Development Program	847,926.00
School Recognition	523,011.00
Gross Receipts Tax (Public Education Capital Outlay)	522,997.00
Voluntary Prekindergarten	499,779.96
Motor Vehicle License Tax (Capital Outlay and Debt Service)	323,362.97
Diagnostic and Learning Resources Centers	188,000.00
Excellent Teaching Program	72,767.16
Adults with Disabilities	71,154.10
Food Service Supplement	35,970.00
Mobile Home License Tax	30,307.56
Discretionary Lottery Funds	30,275.00
Miscellaneous	360,186.87
Total	$ 13,637,786.62

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

13. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	1.9440	$ 39,451,199
Basic Discretionary Local Effort	0.7295	14,804,346
Critical Operating Needs	0.2500	5,073,456
Voted School Tax		
Additional Operating	0.5000	10,146,914
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.4000	8,117,530
Total	3.8235	$ 77,593,445

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14. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the 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 2010-11 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of 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, 2009, June 30, 2010, and June 30, 2011, totaled $5,438,030.54, $5,165,057.22, and $5,412,821.15, respectively, which were equal to the required contributions for each fiscal year. There were 159 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled $889,298.59.

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.

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

15. EARLY RETIREMENT PLAN

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

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in a pension trust fund and is responsible for their investment. The Board appoints and removes the Plan Administrator.

A summary of Eligibility and Benefits follows:

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

As of June 30, 2011, there were eight 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 annual required contributions are the same as those used to determine the actuarial accrued liability.

Total contributions to the Plan in the 2010-11 fiscal year amounted to $50,000, all of which were paid by the Board, and were $365 less than the actuarially determined contribution requirement determined through the actuarial valuation performed as of July 1, 2009.

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).

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

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
7/1/2009	$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	7-1-2009
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%

16. SPECIAL TERMINATION BENEFITS

In April 2010, the Board implemented a one-time Employee Severance Plan (ESP) for the payment of special termination benefits to all full-time employees with ten or more consecutive years of service with the District who were looking to either retire or resign and pursue other opportunities. Under 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 elected to participate in ESP. The District will make contributions into 403(b) accounts for ESP participants who retire under FRS. Participants in 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. The estimated liability at June 30, 2011, for persons participating in ESP is $1,780,984.09 and this amount is not discounted.

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17. 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 coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Additionally, the District contributes a portion of the premium cost for retiree healthcare coverage. The amounts contributed are determined annually by Board action. Retirees are assumed to enroll in the Federal Medicare Program for their primary coverage as soon as they are eligible. The 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 2010-11 fiscal year, 170 retirees received other postemployment benefits. The District provided required contributions of $1,623,000 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 $806,527.05, which represents 0.41 percent of covered payroll.

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

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Description	Amount
Normal Cost (service cost for one year)	$ 2,573,000
Amortization of Unfunded Actuarial Accrued Liability	(126,000)
Interest on Normal Cost and Amortization	122,000
Annual Required Contribution	2,569,000
Contribution Toward the OPEB Cost	(1,623,000)
Increase in Net OPEB Obligation	946,000
Net OPEB Obligation, Beginning of Year	2,711,000
Net OPEB Obligation, End of Year	$ 3,657,000

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, 2011, and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	$ 2,132,000	39.5%	$ 1,289,000
2009-10	2,461,000	42.2%	2,711,000
2010-11	2,569,000	63.2%	3,657,000

Funded Status and Funding Progress. As of July 2010, the most recent valuation date, the actuarial accrued liability for benefits was $31,965,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $31,965,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $59,005,787.71, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 54.2 percent.

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

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

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of July 1, 2010, used the projected unit credit method to estimate the unfunded actuarial liability as of July 1, 2010, and to estimate the District's 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent annual discount rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 2 percent per year, and an annual healthcare cost trend rate of 11 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, until an ultimate rate of 5 percent is reached in the 2021-22 fiscal year. The unfunded actuarial accrued liability is amortized over the maximum allowable period of 30 years on an open basis. It is calculated assuming a level percentage of projected payroll.

18. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2011:

Major Funds						
General	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Capital Improvement Section 1011.71(2)	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
$ 237,889.88	$ 189,821.43	$ 103,882.68	$ 440,031.71	$ 3,454,119.89	$ 5,264.27	$ 4,431,009.86

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

Project	Contract Amount	Completed to Date	Balance Committed
New Horace O'Bryant Middle Middle School:			
Contractor	$ 33,130,329.00	$ 10,562,774.34	$ 22,567,554.66
Architect	2,393,296.39	2,003,116.50	390,179.89
Total	$ 35,523,625.39	$ 12,565,890.84	$ 22,957,734.55

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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. The District's liability under the group medical plan is limited to $250,000 annually for each person. The District's reimbursements from excess insurance coverage for aggregate claims exceeding $12,092,261 is limited to a total of $1,000,000 annually.

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

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
2009-10	$ 2,852,488.00	$ 11,986,973.97	$ (11,631,413.97)	$ 3,208,048.00
2010-11	3,208,048.00	12,704,906.34	(12,506,481.34)	3,406,473.00

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

20. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2010-11 fiscal year:

	Total	Workers' Compensation/ General Liabity	VISTA Insurance	Health Insurance
Total Assets	$ 4,557,146.08	$ 1,721,137.54	$ 52,412.61	$ 2,783,595.93
Liabilities and Net Assets:				
Payroll Deductions and Witholdings	$ 373.72	$ 186.84	$	$ 186.88
Accounts Payable	818,055.52	4,386.76		813,668.76
Estimated Insurance Claims Payable	3,406,473.00	2,697,842.00		708,631.00
Net Assets:				
Unrestricted Net Assets	332,243.84	(981,278.06)	52,412.61	1,261,109.29
Total Liabilities and Net Assets	$ 4,557,146.08	$ 1,721,137.54	$ 52,412.61	$ 2,783,595.93
Revenues:				
Premium Contributions	$ 13,514,359.87	$ 1,338,747.52	$ 367,895.11	$ 11,807,717.24
Insurance Loss Recoveries	598,972.75	102,793.81		496,178.94
Other Operating Revenues	15,043.68	15,043.68		
Interest Income	95.85	95.85		
Total Revenues	14,128,472.15	1,456,680.86	367,895.11	12,303,896.18
Total Expenses	(14,915,664.71)	(1,822,652.63)	(315,482.50)	(12,777,529.58)
Change in Net Assets	$ (787,192.56)	$ (365,971.77)	$ 52,412.61	$ (473,633.40)

21. LITIGATION

The District is involved in litigation with the United Teachers of Monroe County Union (UTM) for an alleged violation by the District of the collective bargaining agreement with UTM. The District is contesting this matter and believes that it is unlikely that UTM will prevail with their claim; however, should UTM be successful, the District estimates a potential loss in excess of $1 million. In addition, the District is involved in several other pending legal actions. In the opinion of District management, the range of potential loss from these other legal actions should not materially affect the District's financial condition.

22. OTHER LOSS CONTINGENCIES

The District received financial assistance from Federal and State agencies in the form of grants and appropriations. The disbursement of funds received under these programs generally requires compliance with specified terms and conditions and is subject to final determination by the applicable Federal and State agencies. Any disallowed claims should become a liability of the General Fund or other applicable funds. The questioned costs identified in the audits for the fiscal years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011, totaled $31,483.16, $122,593.94, $425,163.31, and $2,072.90, respectively, for a total of $581,313.31.

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

23. SUBSEQUENT EVENTS

In a letter to the District's Chief Financial Officer dated September 22, 2011, the State of Florida, Division of Emergency Management requested the repayment of $482,272 regarding overpayments to the District of Stafford Act reimbursement funding arising out of the Hurricane Georges disaster. The letter states that a funding agreement executed on March 15, 1999, between the Monroe County School District and the Department of Community Affairs requires that the District (as subgrantee) reimburse the overpayments. Further, the letter provides for a repayment plan of eight equal monthly payments of $60,284 each.

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, 2011

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 269,000.00	$ 269,000.00	$ 380,545.78	$ 111,545.78
Federal Through State and Local	505,000.00	565,000.00	563,871.07	(1,128.93)
State	12,416,000.00	12,679,067.16	12,759,634.04	80,566.88
Local:				
Property Taxes	66,996,880.00	66,996,880.00	66,966,324.62	(30,555.38)
Miscellaneous	1,204,394.00	1,312,084.89	2,004,411.24	692,326.35
Total Revenues	81,391,274.00	81,822,032.05	82,674,786.75	852,754.70
Expenditures				
Current - Education:				
Instruction	51,117,265.44	52,892,657.03	52,886,050.95	6,606.08
Pupil Personnel Services	3,331,139.52	3,674,336.49	3,654,296.58	20,039.91
Instructional Media Services	1,017,146.95	1,066,686.33	1,063,176.99	3,509.34
Instruction and Curriculum Development Services	1,522,476.36	1,591,735.33	1,425,926.28	165,809.05
Instructional Staff Training Services	340,859.46	484,397.88	473,162.98	11,234.90
Instruction Related Technology	1,096,014.01	1,073,675.44	1,055,474.79	18,200.65
School Board	1,185,399.40	1,266,761.52	952,525.43	314,236.09
General Administration	878,739.62	876,835.32	785,563.07	91,272.25
School Administration	4,957,253.23	4,976,623.76	4,846,293.93	130,329.83
Facilities Acquisition and Construction	441,287.74	588,703.33	585,595.94	3,107.39
Fiscal Services	948,268.54	969,306.51	880,940.03	88,366.48
Food Services		42,920.90	39,658.79	3,262.11
Central Services	1,836,460.51	2,033,901.04	2,015,165.46	18,735.58
Pupil Transportation Services	3,099,878.22	3,407,011.19	3,397,057.47	9,953.72
Operation of Plant	7,214,165.35	7,230,021.33	7,087,650.45	142,370.88
Maintenance of Plant	1,916,175.29	3,034,961.50	2,932,523.00	102,438.50
Administrative Technology Services	378,675.12	382,711.26	382,289.79	421.47
Community Services	1,009,345.65	987,202.72	771,383.87	215,818.85
Fixed Capital Outlay:				
Facilities Acquisition and Construction		5,250.00	5,250.00	
Other Capital Outlay		47,399.39	47,399.39	
Debt Service:				
Interest and Fiscal Charges	59,500.00	101,734.16	58,394.69	43,339.47
Total Expenditures	82,350,050.41	86,734,832.43	85,345,779.88	1,389,052.55
Excess (Deficiency) of Revenues Over Expenditures	(958,776.41)	(4,912,800.38)	(2,670,993.13)	2,241,807.25
Other Financing Sources (Uses)				
Transfers In	1,425,000.00	4,228,450.09	4,228,450.09	
Insurance Loss Recoveries			7,568.26	7,568.26
Transfers Out		(143,469.83)	(137,660.57)	5,809.26
Total Other Financing Sources (Uses)	1,425,000.00	4,084,980.26	4,098,357.78	13,377.52
Net Change in Fund Balances	466,223.59	(827,820.12)	1,427,364.65	2,255,184.77
Fund Balances, Beginning	4,036,743.28	4,036,743.28	4,036,743.28	
Fund Balances, Ending	$ 4,502,966.87	$ 3,208,923.16	$ 5,464,107.93	$ 2,255,184.77

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 1,232,954.00	$ 1,589,794.37	$ 1,440,243.33	$ (149,551.04)	$	$	$	$
3,634,194.22	7,248,549.12	5,057,558.92	(2,190,990.20)	2,649,343.47	6,279,620.29	5,863,653.55	(415,966.74)
4,867,148.22	8,838,343.49	6,497,802.25	(2,340,541.24)	2,649,343.47	6,279,620.29	5,863,653.55	(415,966.74)
2,774,179.11	4,918,683.74	3,522,566.18	1,396,117.56	2,627,870.68	5,604,444.92	5,374,589.94	229,854.98
919,490.91	1,284,645.48	1,034,357.13	250,288.35		122,274.53	64,965.91	57,308.62
	95,814.00		95,814.00				
835,782.68	1,198,652.27	1,022,587.29	176,064.98	21,472.79	77,289.23	71,361.83	5,927.40
199,249.19	1,039,778.37	755,826.77	283,951.60		174,912.82	69,498.83	105,413.99
					27,217.05	27,217.05	
	788.00		788.00				
126,646.33	136,270.96	81,662.87	54,608.09		60,814.71	44,842.06	15,972.65
	13,824.43	6,247.43	7,577.00				
	15,055.50		15,055.50				
					277.00	275.04	1.96
	535.50	535.50					
3,600.00	47,687.33	19,637.92	28,049.41		1,487.14		1,487.14
8,200.00	26,637.18	9,400.98	17,236.20				
	9,324.80	334.25	8,990.55				
	6,787.67	787.67	6,000.00				
	43,858.26	43,858.26			210,902.89	210,902.89	
4,867,148.22	8,838,343.49	6,497,802.25	2,340,541.24	2,649,343.47	6,279,620.29	5,863,653.55	415,966.74
$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (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%
July 1, 2010	0	31,965,000	31,965,000	0.0%	59,005,787.71	54.2%

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 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 separately amortize unfunded actuarial accrued liabilities, information about funded status and funding progress is presented using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funding progress of the plan.

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

Year Ended June 30	Annual Required Contribution	Percentage Contribution
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%
2011	50,365	99.3%

MONROE COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2010, unfunded actuarial accrued liability of $31,965,000 was significantly higher than the July 1, 2009, liability of $26,358,000. The primary reason for this increase is the increased number of retirees resulting from a retirement incentive program offered during the 2009-10 fiscal year. In the July 1, 2009, valuation, there were 122 retirees receiving benefits under the plan. In the July 1, 2010, valuation, there are 193 retirees receiving benefits. This caused an increase in the actuarial accrued liability of approximately $5 million.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2011

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	$ 366,145.98
National School Lunch Program	10.555	300	1,459,412.98
Summer Food Service Program for Children	10.559	323	58,562.39
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	229,616.70
Total United States Department of Agriculture			2,113,738.05
United States Department of Education:			
Direct:			
Impact Aid	84.041	N/A	285,844.60
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	N/A	38,697.01
Fund for the Improvement of Education	84.215	N/A	181,674.04
Total Direct			506,215.65
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,711,695.00
Special Education - Preschool Grants	84.173	267	51,845.43
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	1,064,963.42
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	34,823.33
Total Special Education Cluster			2,863,327.18
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	1,504,351.33
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	345,538.15
Total Title I, Part A Cluster			1,849,889.48
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	43,214.26
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	25,637.27
Total Education for Homeless Children and Youth Cluster			68,851.53
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	2,581,820.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	61,272.04
Total State Fiscal Stabilization Fund Cluster			2,643,092.04
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	163,009.33
Career and Technical Education - Basic Grants to States	84.048	161	56,654.27
Charter Schools	84.282	298	13,571.47
Twenty-First Century Community Learning Centers	84.287	244	863,540.64
English Language Acquisition Grants	84.365	102	100,587.32
Improving Teacher Quality State Grants	84.367	224	424,647.70
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	54,984.34
Education Jobs Fund	84.410	541	1,694,615.00
Palm Beach County District School Board:			
Voluntary Public School Choice	84.361	None	69,625.51
Take Stock in Children, Inc.:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation Fund, Recovery Act	84.396	None	113,688.54
Total Indirect			10,980,084.35
Total United States Department of Education			11,486,300.00

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Health and Human Services:			
Direct:			
Head Start Cluster:			
Head Start	93.600 (3)	N/A	$ 1,248,973.66
ARRA - Head Start	93.708 (4)	N/A	9,595.63
Total Head Start Cluster			1,258,569.29
Indirect:			
Florida Department of Children and Families:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	KD137	100,804.00
Total United States Department of Health and Human Services			1,359,373.29
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	10,753.63
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	20,191.13
United States Department of Interior:			
Indirect:			
Florida Department of Education:			
Refuge Revenue Sharing	None	None	35,813.04
Total Expenditures of Federal Awards			$ 15,026,169.14

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 $216,324 of cash-in-lieu of donated food. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Expenditures include $110,842.05 for grant number/program year 04CH0391/19 and $1,138,131.61 for grant number/program year 04CH0391/20.

(4) ARRA – Head Start. Expenditures include $9,595.63 for grant number/program 04SE0391/01.

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Monroe County District School Board as of and for the fiscal year ended June 30, 2011, 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. 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 deficiencies, significant deficiencies, or material weaknesses. 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.

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.

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 28, 2012

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 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, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3.

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

David W. Martin, CPA
March 28, 2012

MONROE COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA); Education Jobs Fund (CFDA No. 84.410); and Head Start Cluster (CFDA Nos. 93.600 and 93.708 – ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	$450,785
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, 2011

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

State Board of Education (SBE) Rule 6A-1.0071, Florida Administrative Code (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 (AFR). 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 AFR. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition.

Our review of the District's 2010-11 fiscal year AFR, as presented for audit, disclosed that financial reporting procedures could be improved. For example:

Government-wide Financial Statements

- Pursuant to the trust agreement for the District's Certificates of Participation, Series 2010A (COPS), Qualified School Construction Bond , the District is required to make annual payments of $2,117,647, which are deposited with a trustee and invested until maturity to pay off the principal balance on June 1, 2027. However, the District did not properly identify and report the annual payments for the COPS, resulting in restricted investments and certificates of participation payable understatements of $2,117,647 each. Without proper identification and reporting of entity-wide asset and liability balances, the District's financial position may be misinterpreted.

Fund Financial Statements

- District personnel inadvertently overstated interfund receivables and payables in the General Fund for transactions between the cash disbursements bank account and the payroll account that were not eliminated before preparation of the AFR. As a result, the General Fund due from other funds and due to other funds were overstated by $5,574,291 each, potentially causing financial statement users to misunderstand the District's fiscal year-end account balances.
- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District must report a fund as major when the fund's liabilities represent at least 10 percent of the total governmental funds' liabilities. The previously described reporting error caused the District to overstate total governmental funds' liabilities by $5,574,291, resulting in the District's exclusion of the Special Revenue – Other Fund from major fund reporting. 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.
- As a result of erroneously reporting the annual payment for the District's COPS, noted above, the District understated the Debt Service – Other Fund restricted investments and overstated debt service – principal

payments by $2,117,647 each. Errors such as these may cause financial statement users to misunderstand the District's fiscal year-end account balances.

Additional reporting errors related to capital assets are discussed in Additional Matters Finding No. 7.

We extended 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 audit reports, most recently in our report No. 2011-170.

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

ADDITIONAL MATTERS

Finding No. 2: Financial Condition

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

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

The assigned and unassigned fund balance in the District's General Fund totaled $4,647,255.02 at June 30, 2011, which represents approximately 5.6 percent of General Fund revenues. Subsequent to June 30, 2011, at a workshop meeting held in December 2011, District personnel presented the Board an analysis of the 2011-12 fiscal year General Fund budgeted revenues, expenditures, and ending fund balance, which indicated that the financial condition ratio as of December 1, 2011, was 2.71 percent of projected General Fund revenues. Consequently, the Superintendent notified FDOE in a letter dated December 14, 2011, of the 2.71 percent financial condition ratio.

The District's General Fund assigned and unassigned fund balances may be further reduced, as follows:

- The Florida Division of Emergency Management requested in a letter dated September 2011 that the District repay $482,272 for overpayments from Stafford Act reimbursement funding from the Hurricane Georges disaster. The letter states that a funding agreement executed in March 1999 between the Board and the Florida Department of Community Affairs requires that the District, as subgrantee, reimburse the overpayment in eight equal monthly payments of $60,284 each.

- The District accounts for its group health self-insurance program in an internal service fund. At its meeting in January 2012, the Board's insurance consultants presented the Board with a financial update of the health self-insurance program through October 2011. The consultants indicated that they do not expect the plan to have enough assets to meet the Office of Insurance Regulations (OIR) safe harbor surplus threshold of two months of claims, and project the fund to fall approximately $550,000 short of the safe harbor threshold at December 2011 and, assuming no change in funding rates, approximately $300,000 short at December 2012. Additional funding of the health self-insurance program through Board premium contributions from the General Fund may be necessary to restore the assets of the program to the safe harbor threshold required by the OIR.
- In our Additional Matters Finding No. 13, we note a reduction in the net asset balance of the Workers' Compensation/General Liability Internal Service Fund during the 2010-11 fiscal year, resulting in a deficit net assets balance of $981,278.06 at June 30, 2011. Consequently, during the 2011-12 fiscal year, additional Board contributions from the General Fund may be necessary to reverse the decline of the financial position of the Workers' Compensation/General Liability Internal Service Fund and restore the net asset balance to a positive financial position.
- Absent documentation to demonstrate the allowability of certain Federal expenditures, Federal grantors may disallow questioned costs of $581,313.31 as noted below:

Audit Finding Reference	Finding Number(s)	Questioned Costs
Previous Audit Report Numbers:		
2009-209 - Federal Awards Finding	1	$ 31,483.16
2010-181 - Federal Awards Finding	1 and 2	122,593.94
2011-170 - Federal Awards Finding	1 through 3	425,163.31
Current Audit Report Findings:		
Federal Awards Finding	2	2,072.90
Total		$ 581,313.31

If the above questioned costs and reimbursements are required to be paid, and additional Board premium contributions are required for the District's health and workers' compensation self-insurance programs, the District could have significantly less resources available for emergencies and unforeseen situations. Financial monitoring control deficiencies may have contributed to the District's financial condition and are discussed in Additional Matters Finding No. 3.

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

Finding No. 3: Financial Monitoring

SBE Rule 6A-1.008, FAC, requires that monthly financial statements be prepared and submitted to the Board. Board Policy 6232 provides that listings of expenditures, appropriate financial reports, and budget comparison reports be submitted monthly to the Board to keep members informed of the status of appropriations and the District's overall financial condition. However, contrary to Board Policy, District records did not evidence that the Board was always provided monthly budget comparison reports (i.e., comparisons of budget to actual revenues and expenditures) from July 2010 through January 2012, as follows:

- For July 2010 through January 2011, no budget comparison reports were presented to the Board.
- While a budget comparison report, evidencing budget to actual comparisons of all funds, was presented to the Board at the February 2011 Board meeting, the budget comparison reports provided to the Board for March 2011 through May 2011 consisted only of a cash flow summary showing estimated cash receipts and expenditures of the General Fund.
- For June 2011 through September 2011, no budget comparison reports were presented to the Board.
- For October 2011 through December 2011, fund balance analysis reports for the General Fund were presented to the Board. The fund balance analysis reports listed all budget amendments from the beginning of the year and showed their effect on the anticipated ending fund balance. Also, each fund balance analysis report showed the current anticipated ending fund balance amount as a percentage of budgeted revenues. However, the reports did not provide comparisons of budget to actual revenues and expenditures.
- For January 2012, no budget comparison report was presented to the Board.

District personnel indicated that, in addition to the above reports that were presented to the Board, discussions of the District's financial activities and financial condition were held with the Board. However, without monthly financial reports that clearly present budget comparison information for all funds, Board members may have a limited understanding of the District's financial condition, potentially leading to instances of financial mismanagement, authorizing purchases when funds are not available, and not identifying or remedying critical budget shortfalls in a timely manner.

Recommendation: District personnel should provide monthly budget comparison reports to the Board as required by Board Policy 6232.

Finding No. 4: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),[1] required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures of instructional personnel and school administrators that were generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that District records did not sufficiently evidence that employees were evaluated based primarily on student performance. While the performance appraisals for instructional personnel included student performance as a component of the

[1] Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

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. The performance appraisals of school administrators were based on numeric ratings; however, the student performance component of the appraisal represented only 27 percent of the overall numeric performance assessment rating for school administrators.

District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to FDOE approval for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, and when student performance is not the primary assessment criteria, the performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-170.

Recommendation: The District should document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

Finding No. 5: 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 (2010),[2] provided 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 (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule was subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide 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 Board policies require that a portion of each instructional employee's compensation be based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), policies and procedures could be further enhanced to establish and communicate the performance measures affecting instructional employee compensation. In addition, Board policies require that the adopted salary schedule 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 (2010). 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 2010-11 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of

[2] Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel**. Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contract did not evidence that a portion of the compensation of each instructional employee was based on performance.

  The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic coaches and music directors. Also, the salary schedule provided salary supplements for instructional personnel at Title I schools based on school demographics and supplements were provided for performing services as program managers and team leaders based on job performance difficulties. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

- **School-based Administrators**. The school-based administrators' salary schedule evidenced consideration of differentiated pay for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-170.

Recommendation: The Board should enhance its 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. 6: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, SBE Rule 6A-1.0012, FAC, authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreement and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, the SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

Although the District did not use EFTs to make vendor payments, the District regularly made electronic disbursements for its self-insurance program, debt service payments, payments to charter schools, and direct deposit of employee pay and other payroll related activity, such as retirement benefits, Federal taxes, annuities, flexible benefits, and payroll deductions. The Board established an agreement with a bank that provides for authorized personnel to be given online banking access to execute wire transfer payments and transfers between District bank accounts; however, controls over the EFT process could be enhanced, as follows:

- While the District used informal processes including e-mail directions to establish and preapprove electronic transmission of funds, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes.
- The bank agreement contained the signature of the Board Chair, but not the signature of the Superintendent, contrary to SBE Rule 6A-1.0012, FAC.
- At the request of District personnel, the bank provided us with copies of bank authorization forms indicating that, as of November 3, 2011, seven District employees were authorized to initiate EFTs and four of those employees were authorized to approve EFTs. Our review of these seven forms disclosed that:
    - Five of the authorization forms required secondary approval by someone other than the initiator of the EFTs; however, two of the authorization forms did not require secondary authorization to approve the EFTs, resulting in an inappropriate separation of duties.
    - Three of the authorization forms identified the accounts that the employees were authorized to access, but four forms did not, contrary to SBE Rule 6A-1.0012, FAC.
    - Four of the authorization forms were signed by authorized employees, but three forms were not signed, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizers of EFTs, management review of EFT transactions, and independently prepared bank reconciliations, to compensate, in part, for the lack of formal policies and procedures. While our audit procedures did not disclose any EFTs for unauthorized purposes, our audit procedures cannot substitute for management's responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules. Such procedures should ensure that the agreement contains the manual signature of each person authorized to initiate EFT transactions, and that all such transactions be approved by someone other than the initiator of the EFT.

Finding No. 7: Capital Assets

On the government-wide financial statements, the District reported depreciable capital assets of $330,054,540, accumulated depreciation of $73,115,824, and depreciation expense of $6,564,264 for the 2010-11 fiscal year. The District usually maintains schedules to support the amounts reported for capital assets, accumulated depreciation, and depreciation expense. However, as similarly noted in our audit report No. 2011-170, the District's capital asset reporting and accountability procedures needed improvement, as noted below:

<u>Reporting</u>

- The District reported property under capital leases totaling approximately $3.2 million; however, this amount included certain assets that were no longer under capital lease. As a result, the amount reported as property under capital leases was overstated by approximately $1 million, and fixtures and equipment and audio visual materials and computer software were understated by $876,892 and $122,515, respectively, at June 30, 2011.

In addition, the amount reported as depreciation expense for property under capital leases for the 2010-11 fiscal year was identical to the amount reported for the 2009-10 fiscal year and was understated by approximately $1 million.

- Pursuant to the District's agreement with its new charter school, Sigsbee Charter School, Inc. (charter school), the District transferred land, buildings, and improvements to the charter school by quit claim deed in August 2010, for a nominal fee of $10. The agreement also provided that certain tangible personal property items (furniture, fixtures, and equipment, and audio visual materials and computer software) would be transferred to the charter school. However, the cost and related accumulated depreciation of these capital assets, totaling approximately $2.1 and $1.4 million, respectively, were erroneously included in the capital asset and accumulated depreciation balances reported by the District at June 30, 2011.
- Although the District reported capital assets for furniture, fixtures and equipment ($18.9 million), motor vehicles ($7.8 million), and audio visual materials and computer software ($3.9 million), and routinely calculates depreciation from the month of purchase to June 30, the District reported depreciation expense for the 2010-11 fiscal year identical to the amount reported for the 2009-10 fiscal year (i.e., approximately $1.2 million, $616,000, and $20,000, respectively) because 2010-11 fiscal year purchases of furniture, fixtures and equipment ($350,019.35), motor vehicles ($20,298) and audio visual materials and computer software ($39,791.26) were not considered for calculations of depreciation expense.
- The District reported additions of $573,865 to improvements other than building; however, this amount included $24,907 of capital expenses that had been reported in the construction in progress asset category and $548,958 of noncapital expenses. These errors resulted in overstatements of $573,865 each for improvements other than buildings and facilities acquisition and construction expenses.
- In July 2010, the Board approved tangible personal property disposals totaling $1,318,988.34 (furniture, fixtures, and equipment of $360,937.98; motor vehicles of $815,524.25; and audio visual materials and computer software of $142,526.11); however, the cost and related accumulated depreciation for these assets was erroneously included in the capital asset and accumulated depreciation balances reported by the District at June 30, 2011.

<u>Accountability</u>

- Chapter 274, Florida Statutes, and Department of Financial Services (DFS) Rule 691-73, FAC, require that the District maintain adequate records of furniture, fixtures, and equipment and motor vehicles (e.g., tangible personal property) in its custody and that the property be inventoried annually, compared to the personal property records, and that all discrepancies be reconciled. The District acquired 1,848 laptop computers ($2,017,400), 766 tablet computers ($1,161,639), and other computer equipment and software ($416,052) by capital lease during the 2005-06 through 2007-08 fiscal years. However, the items were never included in the District's tangible personal property records and were not included in the annual physical inventories of tangible personal property, contrary to the above requirements. District personnel indicated that this occurred because the equipment had been acquired by capital lease instead of direct-purchase.
- Contrary to Chapter 274, Florida Statutes, and DFS Rule 691-73, FAC, the District had not reconciled its detailed subsidiary records for furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software to the respective capital asset control accounts. To determine the balances reported on the financial statements for these assets at June 30, 2011, District personnel added the 2010-11 fiscal year capital outlay expenditures, to the balances reported on the financial statements at June 30, 2010. However, at June 30, 2011, the total amount reported for these assets ($19,587,038.37) exceeded the detailed subsidiary property records by $11,078,135. Because of the number of transactions, it was not practicable for us on postaudit to determine the specific causes for the differences between the subsidiary property records and the amounts reported.
- Federal Awards Finding No. 3 addresses control deficiencies relating to the District's Head Start Cluster program. These control deficiencies indicate that purchases of equipment were not recorded in the District's subsidiary records of tangible personal property on a timely basis.

We extended our procedures to determine that capital asset amounts and depreciation expense reported on the financial statements were materially correct; however, failure to timely update property records, depreciation schedules, properly classify capital assets, and accurately capitalize expenses, may cause financial statement users to make inaccurate conclusions regarding the condition of the District's capital assets. Also, absent complete detailed subsidiary records for tangible personal property, or procedures to physically inventory property and timely update the property records for items acquired, the District's ability to properly control, manage, and safeguard these assets is limited.

Recommendation: The District should enhance procedures to ensure proper accountability and reporting of capital assets.

Finding No. 8: Construction Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between certain costs of the project and the GMP amount, or the net cost savings, to be returned to the District. A GMP contract requires District personnel to closely monitor construction costs and the award of bids to subcontractors.

The Facilities and Construction Department is responsible for construction administration and for implementing procedures that comply with applicable laws and ensuring the use of best business practices for construction related projects. We reviewed the District's administration of a GMP contract totaling approximately $33.1 million for the construction and remodeling of Horace O'Bryant Middle School (HOB). The GMP contract provides that if the cost of the project is less than the GMP, the savings will be divided 60 percent to the District and 40 percent to the CME. Our review disclosed that the District could enhance its controls over construction management, as follows:

- Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Although CME personnel indicated that there were approximately 35 subcontracts used on the construction and remodeling of HOB, District records did not evidence that the District monitored the CMEs verification that subcontractors were properly licensed. Verification of subcontractor licenses provides the District additional assurance that subcontractors are qualified to perform the work for which they are engaged.
- The District paid the CME based on payment requests that were supported by a schedule of values listing the individual components of the project. The payment requests included amounts for the work performed by the subcontractors; however, procedures were not in place to verify that payments made to subcontractors selected by the CME during the bid process were consistent with the terms of the subcontractor contracts. When payments to subcontractors are not monitored, the District's ability to realize the maximum savings may be limited.
- The GMP contract includes a contingency amount of $563,539. The contract indicated that the contingency was an amount established by the CME for the exclusive use of the CME to cover costs of further development of the drawings and specifications by the architect if the drawings and specifications are not finished at the time the GMP proposal is prepared and other reimbursable costs which are not the basis for a change order. However, District records did not evidence the process for how or when this amount will be used or its disposition if not used. In the absence of written procedures and contract terms and conditions

that provide for the use and disposition of the contingency, the District's ability to ensure satisfactory completion of the work and the reasonableness of the costs for the work is limited.

Recommendation: The District should enhance its monitoring procedures to include the CME's verification that subcontractors are properly licensed. Also, the District should enhance procedures to ensure that CME payment requests are consistent with applicable subcontractor bids and contracts. Further, the terms and conditions for the use and disposition of any contingencies should be provided for in the District's contracts.

Finding No. 9: Food Service Revenues

The District reported local food service revenues from meals of approximately $1.2 million for the 2010-11 fiscal year. Food service collections at the District's food service facilities (16 approved public and charter schools during the 2010-11 fiscal year) 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 the information such as 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 student account balances. 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 meals served, as follows:

- The District did not use the sales reported by the point-of-sales system to record food service revenue. Instead, revenues were posted to the general ledger from actual deposits to the bank. No reconciliations of actual deposits to amounts reported in the point-of-sale system for meal sales, prepaid meals, meal charges and amount over and short were prepared for the months of July 2010 and January through June 2011. While we were able to reconcile tested deposits to the point-of-sale system, without timely reconciliations performed by District personnel, there is increased risk that errors or fraud, should they occur, may not be detected timely.
- The transfer of daily collections between cafeteria personnel at three of the four schools tested were not always evidenced by transfer receipts signed by the employees transferring and the employee receiving, the collections. Our tests of collections disclosed that for 24 of 30 serving days tested there was no documentation evidencing the transfer of collections. The collections made without the benefit of transfer receipts totaled $9,513. Absent such transfer documents, the District may be limited in its ability to fix responsibility should a loss of collections occur.

Similar findings were noted in previous audit reports, most recently in our report No. 2011-170.

Recommendation: The District should provide a timely reconciliation of actual deposits to sales reported in the point-of-sales system and document the reasons for adjustments or corrections made to the monthly summary reports used to prepare the District's monthly reimbursement claims. In addition, the District should ensure that transfer documents are used to fix responsibility for transfers of cash collections.

Finding No. 10: 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 seven schools, and reported $607,125 of program fee collections for the 2010-11 fiscal year. In addition, pursuant to Section 1009.22, Florida Statutes, the District assessed, collected, and recorded $54,660 of adult education fee collections for students enrolled in its adult education program. Our review of internal controls procedures over after school day care collections at two elementary schools and adult education collections disclosed the following deficiencies:

- Gerald Adam Elementary School's and Poinciana Elementary School's after-school day care fees totaled $93,524 and $251,808, respectively, for the 2010-11 fiscal year. Gerald Adam Elementary School and Poinciana Elementary School had after-school day care program overdue fees, totaling $1,765 and $6,420, respectively, at June 30, 2011. We were advised by District Finance Department personnel that after-school day care managers had been instructed to send letters to parents requesting payment of overdue fees; however, written policies and procedures had not been established to recover overdue accounts. When collection efforts are not timely, there is an increased risk that such fees will remain uncollected.
- According to FDOE's publication titled *Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), adult education program fee revenue should be accounted for as District General Fund revenues. However, 2010-11 fiscal year collections totaling $13,940 for testing and cosmetology services were deposited in the District's school internal accounts, contrary to the Red Book. Proper accountability of fee collection revenue would ensure that the Board budgets and uses this income consistent with other educational revenues.
- 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 during 2010-11 fiscal year. Without such comparisons, there is an increased risk of intentional or unintentional loss of collections.

Similar findings were noted in previous audit reports, most recently in our report No. 2011-170.

Recommendation: The District should enhance its control procedures to ensure appropriate follow-up of after school day care overdue accounts. Also, the District should enhance procedures to ensure that adult education fee collections are accounted for in the District's General Fund, consistent with requirements of the FDOE Red Book, and obtain reimbursement of these proceeds from the schools' internal accounts. In addition, the District should ensure that independent fee audits are performed for after school day care and adult education program fee collections.

Finding No. 11: Payroll Processing –Time Records

The District paid contracted employees on a payroll by exception basis in which employees received their regular pay each period, unless employees used more leave than accumulated, resulting in a reduction to their salary. Employees are required to prepare and sign leave forms that supervisors reviewed and approved or disapproved. 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, the District needed to enhance its procedures for documenting employee time worked, as discussed below.

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

9 employees did not include arrival and departure times. In addition, the time records for 13 employees were not signed by the employee and for 20 employees the time records did not include the signature of employee's supervisor.

Further, the District allowed teachers to use their standard school work day to plan time for after school activity instruction, and the teachers were required to work extra time to compensate for planning time used for after school activity instruction. To determine the propriety of expenditures for after school activity instruction and that extra work time was properly documented, we selected salary payments to 22 teachers and 8 paraprofessionals for after school activity instruction at six schools, and one payment to each of two SES providers for after school tutoring services performed by four teachers, one counselor, and one laboratory assistant. We reviewed District timesheets, daily sign in and out sheets maintained by the schools, other payroll records, and tutor timesheets that were attached to the SES provider payment vouchers and noted the following:

- District records did not evidence that ten teachers worked the extra work time to compensate for after school activity instruction totaling 5 hours during the standard school work day. The daily payroll sign in and out sheets for seven of those teachers at two elementary schools contained only the teachers' initials and not the arrival and departure times. Also, the daily payroll sign in and out sheet for one teacher at a high school did not evidence the arrival and departure times, and for two teachers at a middle school, we were informed by the principal that the teachers were only required to submit a letter to the principal demonstrating how they planned on making up the overlapping time and no documentation was provided to show the actual dates and times that additional work was performed. The ten teachers were paid a total of $762.50 from the Twenty-First Century Federal grant program for after school instruction during times that overlapped between 15 minutes and 1 hour with the standard school work day.
- For one elementary school, District records did not evidence that a counselor and two teachers employed by an SES provider worked extra work time to compensate for after school tutoring on SES timesheets totaling 28 hours during the standard school work day. Daily payroll sign in and out sheets were kept at the school; however, the sign in and out sheets contained only the employees' initials and not the arrival and departure work times. The SES provider was paid $1,310.40 from the Title I Federal grant program for the after school tutoring performed during the standard school work day.

Without payroll records and procedures that provide for a uniform method of documenting actual time worked, including arrival and departure times, and when work attendance is not evidenced and timely verified of record, the risk increases that employees may be incorrectly compensated. Similar findings were noted in previous audit reports, most recently in our report No. 2011-170.

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

Finding No. 12: Property Insurance

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

The District estimated the replacement values for its property and contents for its 12 schools and other facilities to be approximately $302 million at March 1, 2011. The District's excess insurance for wind coverage had a wind loss limit of only $2.5 million per named windstorm after a deductible of 5 percent of the total insured values per location subject to a minimum deductible of $10 million per occurrence. Such coverage potentially exposes the District to significant out-of-pocket costs in the event of a loss. For example, if the District incurred a $29 million loss on property with an insured replacement cost of $100 million as a result of a single named windstorm, it would incur out-of-pocket costs of $26.5 million after recovering $2.5 million from insurance.

Although the District anticipates Federal and State assistance in the event of such a loss, it has not developed an action plan to expedite replacement or repair of the property loss while it waits for Federal and State assistance. At June 30, 2011, the District had $4,494,318 in unassigned fund balance in the General Fund that could be used to cover losses above any insurance proceeds the District receives. Without an action plan that identifies financing resources for property loss replacement or repairs, the District could potentially experience financial strain while trying to meet its current obligations after incurring such a loss. A similar finding was noted in previous audit reports, most recently in our report No. 2011-170.

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

Finding No. 13: Net Asset Deficit – Workers' Compensation/General Liability Internal Service Fund

The District's self-insurance program provides property and casualty, including workers' compensation, insurance coverage. Risk is retained by the District up to specified limits, and agreements were entered with various insurance companies to provide coverage of individual claim expenses above specific and aggregate limits when 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 2010-11 fiscal year, the District's Workers' Compensation/General Liability Insurance Internal Service Fund unrestricted net assets balance declined $365,971.77 from a deficit balance of $615,306.29 to a deficit balance of $981,278.06. A summary of the unrestricted net assets balance for the District's Workers' Compensation/General Liability Insurance Internal Service Fund for the past five fiscal years is shown below:

Ended June 30	Net Assets Balance Positive (Deficit)
2007	$1,196,075.99
2008	281,410.38
2009	152,521.74
2010	(615,306.29)
2011	(981,278.06)

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.

In January 2012, 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 $198,425 increase in the actuarially determined estimated liability for claims payable at June 30, 2011. In addition, District personnel indicated that the

District is currently hampered in immediately reducing the deficit due to the diminishing fund balance of the General Fund. A similar finding was noted in our report No. 2011-170.

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. 14: Gasoline and Diesel Fuel Usage

During the 2010-11 fiscal year, the District maintained inventories of gasoline and diesel fuel at three locations within Monroe County. Fuel expenditures by the District for the 2010-11 fiscal year totaled $375,192 for fuel obtained at the District's three fueling locations, $40,146 for fuel purchased from Monroe County Board of County Commissioners (County), and $88,672 for fuel purchased with gasoline credit cards. The fuel dispensing equipment consists of a computer-based fuel pumping system to track fueling records. Two keys were usually needed to obtain fuel from the pumping system, including a vehicle identification (ID) key and a personnel ID key. A master ID key can be used alone to obtain fuel and master ID keys were issued to six Transportation Department employees; however, the employee using the master key must enter the vehicle or equipment number into the system manually to operate the fuel pumping system. Each fuel dispensing location is open on a 7-day, 24-hour basis, attendants are not present when fuel is pumped, and the system does not provide a receipt for the fuel obtained.

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 County, Florida Highway Patrol, 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 to enhance the accountability and control of gasoline and diesel fuel usage as discussed below.

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 whether the reports were reviewed. Periodic reviews of fuel usage reports and determinations of the reasonableness of fuel usage should be evidenced by documentation that includes the dates of such reviews and the reviewer's signature.

We reviewed the June 2011 and September 2011 transaction reports for fuel dispensed into District vehicles and other equipment at the District's three fueling locations. The reports included 432 fueling transactions for 107 District vehicles and other equipment items, and our review disclosed the following:

- The September 2011 report for fuel obtained at District locations did not contain the identification (personnel ID or the master key ID) of the individuals who obtained fuel for three fueling transactions of three different vehicles. District personnel indicated that a master fuel key was used for these transactions and that the system does not record a person's identification when the master key is used. According to District personnel, the Transportation Department established a master key log to record the use of the six master keys; however, the log was not updated to document the name of the individuals for the three fuel transactions.

- Significant fluctuations were noted for the miles per gallon fuel consumption shown on the reports for several vehicles. For example, the amounts reported for three fueling transactions in June 2011 for one truck ranged from 59 miles per gallon to 22.2 miles per gallon and the amounts reported for four fueling transactions in September 2011 for one truck ranged from 76.1 miles per gallon to 3.6 miles per gallon.
- Certain vehicle odometer readings were not entered into the system correctly at the time fuel was obtained as the reports for 16 fueling transactions in September 2011 disclosed the current odometer readings were less, or the same, as the odometer readings recorded for the previous fueling transaction. In addition, for 21 fueling transactions in September 2011, we noted that that the previous odometer readings carried forward by the system were different than the odometer readings shown on the report for the previous fueling transactions. For example, the current odometer reading carried forward from the previous work day for one vehicle was 875 miles more than the reading shown on the report for the previous work day.

Under these conditions, 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. Similar findings were noted in previous audit reports, most recently in our report No. 2011-170.

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 employees who obtained the fuel and by appropriate supervisory personnel. Also, the name of the person using a master key should be documented whenever master keys are used. In addition, District records should evidence the investigation and resolution of significant fluctuations in vehicle fuel consumption (miles per gallon) and erroneous odometer readings.

Finding No. 15: Information Technology – Disaster Recovery Plan

Disaster recovery planning is an important element of IT controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. The success and effectiveness of a disaster recovery plan requires elements such as provisions for secured off-site storage of critical backups and alternate site processing arrangements. 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 and processing center elsewhere in the District. The alternate site recovery and processing center was intended to handle all of the District's business processing in the event of a major hardware or software failure at the main data center. 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 for continuing critical operations at the recovery center had been performed.

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. A similar finding was noted in previous audit reports, most recently in our report No. 2011-170.

Recommendation: The District should test the effectiveness of its disaster recovery plan on a periodic basis.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Costs Principles – Documentation of Time and Effort. United States 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.

The District reported approximately $2.1 million of expenditures for the Child Nutrition Cluster (CNC) programs for the 2010-11 fiscal year. The District allocated 5 percent of custodial salaries and benefits totaling $159,990 to the CNC programs based on quarterly allocations of departmental/project budgets; however, personnel activity reports or equivalent documentation were not prepared to document the amount of time worked by the District's custodial staff for the CNC program.

Subsequent to delivery of our preliminary and tentative findings, District personnel provided documentation of the square footage of food service areas maintained by custodians as a percent of total school square footage. Based on this percentage, the custodial salaries and benefits were appropriately paid from the CNC programs. However, without the Federally-required personnel activity reports or equivalent documentation to demonstrate that the work activities of the custodians benefited the CNC programs, there is an increased risk that personnel costs may be inappropriately charged to the programs. Similar findings were noted in previous audit reports, most recently in our report No. 2011-170.

Recommendation: The District should maintain the required documentation to support salary and benefit expenditures charged to the CNC programs.

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 - $1,310.40; CFDA No. 84.287 - $762.50

Allowable Costs/Costs Principles. United States Office of Management and Budget 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. 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 with SES providers, requiring the providers to maintain records for five years of student attendance showing the dates of tutoring sessions, including arrival and departure times. The contracts authorized the SES providers to charge per-student fees for individual or group tutoring sessions up to a maximum of $1,124 per student for providing the services. The after school tutoring sessions were often taught by District teachers and other District employees who were employed by the providers.

Additional Matters Finding No. 11 addresses control deficiencies over employee work schedules. These control deficiencies and our audit tests of payroll time records disclosed additional payments totaling $1,310.40 that were made to SES providers for tutoring sessions conducted by District teachers and a counselor during these employees' standard work day. Those payments totaling $1,310.40 represent questioned costs of the Title I program. A similar finding was noted in our report No. 2011-170.

Twenty-First Century Community Learning Centers Programs. 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 Additional Matters Finding No. 11, which addresses control deficiencies over payroll time records and employee work schedules, some District employees were paid a total of $762.50 from Twenty-First Century Program funds for work in the before and after-school enrichment programs at times that were during the employees' standard work day. Those payments totaling $762.50 represent questioned costs of the Twenty-First Century Program. A similar finding was noted in our report No. 2011-170.

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 (FDOE) the allowability of the $2,072.90 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
Award Numbers: 04CH0391 and 04SE0391/01
Program: Head Start Cluster (CFDA Nos. 93.600 and 93.708 - ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Equipment Management. Our testing of equipment purchases of the Head Start Cluster programs disclosed that equipment totaling $24,588 was not timely recorded in the District's subsidiary tangible personnel property records. The equipment purchased was received in August and September 2010; however, the equipment was not entered into the subsidiary tangible personnel property records until September and December 2011, respectively. Untimely updating of tangible personnel property records for equipment purchases could adversely affect the District's ability to properly account for these assets. A similar finding was noted in our report No. 2011-170.

Recommendation: The District should implement procedures necessary to provide adequate control over tangible personnel 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. 2011-170.

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, 2011

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2009-209 (1)	Adult Education - Basic Grants to States (CFDA No. 84.002); Career and Technical Education - Basic Grants to States (CFDA No. 84.048); and Tech-Prep Education (CFDA No. 84.243) - Allowable Costs/Cost Principles.	The District records did not evidence the basis or authority for certain costs, resulting in questioned costs of $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.	For Adult Education, the new director has been trained in grant reporting and has experience working with Federal grants. A separation of duties has been established to confirm compliance. The grantor has not yet made a determination regarding restoration of question costs.
2010-181 (1) 2011-170 (2)	Adult Education – Basic Grants to States (CFDA No. 84.002); Title I Grants to Local Educational Agencies (CFDA No. 84.010); Twenty-First Century Community Learning Centers (CFDA No. 84.287); and Improving Teacher 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) for the 2008-09 fiscal year, and $29,440.50 (CFDA No. 84.010 - $23,140 and CFDA No. 84.287 - $6,300.50) for the 2009-10 fiscal year.	Partially corrected.	For Adult Education, the new director has been trained in grant reporting and has experience working with Federal grants. A separation of duties has been established to confirm compliance. For Improving Teacher Quality, procedures have been implemented to ensure that Federal funds are only spent on grant activities. The grantor has not yet made a determination regarding restoration of question costs.
2010-181 (2) 2011-170 (3)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Adult Education – Basic Grants to States (CFDA No. 84.002); Education for Homeless Children and Youth (CFDA No. 84.196); and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles – Documentation of Time and Effort.	Procedures could be improved to provide for the required semiannual certification for employees who work solely on a single Federal program and periodic personnel activity reports for employees who work on multiple activities or cost objectives. Unsupported payroll expenditures resulted in questioned costs of $11,281 (CFDA No. 84.002) for the 2008-09 fiscal year and $84,015 (CFDA No. 84.196 - $17,433 and CFDA No. 84.287 - $66,582) for the 2009-10 fiscal year.	Partially corrected.	Semiannual certification and PAR forms are now used for 21st CCLC, Homeless Children and Youth, and Adult Education - Basic Grants to States, and generally used for the Child Nutrition Cluster. The grantor has not yet made a determination regarding restoration of question costs.
2010-181 (4) 2011-170 (1)	Special Education Cluster (CFDA Nos. 84.027 and 84.391) - Matching, Level of Effort, Earmarking – Early Intervention Earmark.	Procedures could be enhanced to ensure charges to the Special Education program for early intervention services are properly supported, resulting in questioned costs of $311,707.81 for the 2009-10 fiscal year.	Partially corrected.	District has corrected the time and effort forms for the staffing specialists and wrote straight forward EIS activities into the grant applications. The grantor has not yet made a determination regarding restoration of question costs.
2010-181 (5) 2011-170 (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.	Corrected.	New computerized systems and procedures have been implemented for the 2011-12 fiscal year. Controls implemented to ensure accurate meal counts.
2011-170 (4)	Head Start Cluster (CFDA Nos. 93.600 and 93.708) - Activities Allowed or Unallowed.	The District overreimbursed an employee $9,043 for educational expenses from Head Start program funds.	Corrected.	Procedures are in place to ensure that all reimbursement goes through the Payroll Department. Taxable income is properly identified. The District restored the questioned costs totaling $9,043 to the Head Start program during the 2010-11 fiscal year.
2011-170 (6)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Equipment Management.	Procedures should be enhanced to provide adequate control over tangible personal property purchased with Federal funds.	Not corrected.	The District has issued a procedure manual for property control which addresses the reporting of capital assets. The finance personnel are required to submit monthly capital asset reports to property control personnel.

EXHIBIT A

MANAGEMENT'S RESPONSE

DR. JESUS F. JARA
Superintendent of Schools

CONSTANT IMPROVEMENT

Members of the Board

District # 1
ROBIN SMITH-MARTIN

District # 2
ANDY GRIFFITHS
Vice Chair

District # 3
DR. R. DUNCAN MATHEWSON, III

District # 4
JOHN R. DICK
Chair

District # 5
RONALD A. MARTIN

March 28, 2012

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

Subject: Auditor General Preliminary & Tentative Audit Findings for FY Ended June 30, 2011

Dear Mr. Martin:

Attached please find Management responses to the 2010-2011 Audit Findings. Please note that a Corrective Action Plan, along with new instituted procedures are included in Management responses.

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

Sincerely,

Dr. Jesus F. Jara
Superintendent of Schools

Cc: School Board
CFO
Leadership Team
Audit & Finance Committee

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EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

MANAGEMENT RESPONSE

MATERIAL WEAKNESS

Finding No. 1: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

Response: Agree
Status: In Progress
Corrective Action:

Correcting entries have been accepted and are included in the financial report. We plan to hire the same contractor this year to allow for consistency and implement staff training for the year end process. The contractor has significant experience in the Auditor General's office and performed similar work four years ago with minimal exceptions. The consultant will assist the Administration in carrying out its responsibility to complete the financial statements accurately and with all required disclosures. The two issues cited in this year's report are in part due to staff turnover through the second half of the year and related challenges in rehiring due to fiscal constraints.

Part of the issue relating to the two misstatements (intercompany elimination and debt payment classification) was the late start in the preparation of the report. The process will start earlier this year to complete the following:

1) Clear outstanding purchase orders, and realign negative balances between line items and function as part of the month-end close out procedure. This process will be performed by all department heads to allow more time for year-end financial statement preparation.
2) Reduce backlogs for billing Medicaid billing and provide training to staff to ensure that processes are done monthly and quarterly as required.
3) Documentation of year-end close out procedure to include elimination of intercompany entries, capital asset schedules and depreciation (See response for Finding No. 7).

The other part of the solution to resolve this finding is a secondary review of the report prior to submission to the DOE. We will look to use the Audit and Finance Committee for a secondary review or recommendations for a secondary review.

ADDITIONAL MATTERS

Finding No. 2: In December 2011, the District notified the Florida Department of Education that the District had experienced a significant decline in its General Fund financial condition; however, the financial condition may be further reduced by payments of questioned costs and additional Board premium contributions for the District's health and workers' compensation self-insurance programs, resulting in significantly less resources for emergencies and unforeseen situations.

Response: Agree
Status: In Progress
Corrective Action:

As part of the budget process the financial issues will be addressed. A preliminary tentative budget will be discussed with the School Board in July and approved by the School Board in September. In these tough economic times the School Board and Superintendent will make difficult decisions in order to continue to deliver excellent education in a financially prudent manner.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 3: The District could enhance the monthly financial reports provided to the Board.

Response: Agree
Status: In Progress
Corrective Action

As noted in the report, cash flow projections and fund balance projections were provided to the School Board throughout the year in part due to the fiscal situation faced by the district. Effective immediately monthly budget to actual comparisons will be provided to the School Board as part of the monthly financial reporting. Budget to actual comparison reports have been drafted and will be presented to the School Board for review in April.

Finding No. 4: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Response: Agree
Status: In Progress
Corrective Action

The School Board adopted a new evaluative tool approved and recommended by the FDOE for all teachers. The School Board will adopt a new salary schedule and revise the evaluative tool for administrators.

Finding No. 5: The Board needed to enhance its 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 (2010), 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 (2010).

Response: Agree
Status In Progress
Corrective Action

The School Board adopted a new compensation schedule for all instructional personnel. A new salary schedule for administrators will be voted on by the School Board this fiscal year.

Finding No. 6: Controls over electronic funds transfers needed improvement.

Response: Agree
Status: In Progress
Corrective Action:

Signature forms have been reviewed, updated and signed. A School Board policy has been drafted and is scheduled to be submitted to the School Board for review in April. Appropriate procedures will be updated to be consistent with revised polices.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 7: Capital asset accountability and reporting procedures needed enhancement.

Response: **Agree**
Status: **In Progress**
Corrective Action:

A portion of the process for accounting for tangible property has been implemented with a revised set of procedures for tangible fixed assets including a scheduled self-audit program. Regarding the capital assets and depreciation, the Administration will staff and prioritize the reconcilement and updating of financial reporting to be complete for FY 2012 reporting by June 30. (See Response for Finding No. 1)

Finding No. 8: The District could enhance its controls relating to construction management.

Response: **Agree**
Status: **In Progress**
Corrective Action:

Although the Construction Manager is responsible for many of the responsibilities outlined, the Administration agrees that additional monitoring steps and procedures reflect sound business practices. Specifically, issues relating to subcontractor payments and licensing will be reviewed on an ongoing basis with the construction manager. The Administration hired a Construction Consultant to help implement these changes and look for ways to improve the overall management of the project.

The Superintendent will review these additional steps with the consultant and implement the suggested controls by June 30, 2012.

Finding No. 9: Improvements were needed in controls over food service collections.

Response: **Agree**
Status: **In Progress**
Corrective Action:

An attempt to outsource Food Service was unsuccessful last year as no external bids were received. The School District will attempt to outsource Food Service a second time this year. As a result of last year's audit, the Food Services Department implemented the following procedures:

Regarding reconciliation, a template was developed to resolve issues of formatting, content and layout. The new (updated) POS system contains additional information that will be included in the reconciliation worksheet. A test run of February data is scheduled with live implementation using March data in April 2012.

Regarding transfer of daily collections, the procedures in place were not being consistently followed in all schools. Corrective action will take place accordingly.

The Food Services accountant tracks the deposits and reconciles between the POS system and bank on a weekly basis and notifies the café managers when, or if, corrections need to be made or if there are unacceptable variances that need to be explained.

The Administration hired a consultant to manage the Food Services operation from April through June. The consultant will provide for recommendations to improve the existing process.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 10: The District needed to enhance controls over after school day care and adult education program fees.

Response: Agree
Status: Complete
Corrective Action:

Regarding Adult education, all testing and cosmetology fees are now deposited in the district adult education revenue account. The money that was placed in an internal account will be transferred to the district adult education account.

After care procedures and controls for Gerald Adams and Poinciana will be enhanced to include recovery and collection steps. Independent fee collection audits will be conducted.

Finding No. 11: Payroll processing procedures could be enhanced to ensure that employee work time is appropriately documented, approved, and paid in accordance with Board intent.

Response: Agree
Status: Complete
Corrective Action:

As noted in last year's response: "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 following was also noted:

- 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 Chief Operating Officer (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.

During the 2010-11 fiscal year, regarding after school work performed during teacher planning time, teachers were allowed to use their regular workday planning time for work on the 21st Century and other after school programs and as tutors for SES providers. A form for each school (Arrangements for Teacher Planning Time) was signed by the Principal and the Chief Operating Officer, establishing plans for making up the teacher planning time that was used for other paid work. The plans for making up the teacher planning time included: staying after the program ends at the end of the day; arriving earlier than the teacher starting time; work on Saturdays and Sundays; or staying later on days not working in an after-school program.

Although the District maintains sign-in and sign-out logs at each school, there is inconsistency in formatting whereby each form does not always indicate time in and time out or that time is being made up. Going forward:

1) All Sign-in and sign-out logs will indicate times indicating arrival and departure and,
2) Title I supplemental Education services (SES) and 21st CCLC (Community Learning Centers) will make every effort not to utilize district teachers until AFTER the 7.5 hour contract time is fulfilled.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 12: A formal plan needs to be established to adequately fund the property self-insurance program for wind damage.

Response: Agree
Status: In Progress
Corrective Action:

The issue of an adequately funded property self-insurance program for wind damage is prevalent throughout the state of Florida. We have worked with our Insurance Broker and Risk Managers from other School Districts and will implement the following:

1) In conjunction with Insurance Broker document a letter to the Office of Insurance Regulation stating the adequacy of the search for insurance
2) Develop a disaster recovery plan based on current self-insurance coverage after consultation with Insurance Broker and conversations with other Risk Managers.

Both action steps are targeted for completion by June 30, 2012.

Finding No. 13: 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: In progress
Corrective Action:

As part of the budget process, staff will increase the workers compensation contribution. The CFO will formulate a plan to build up the workers compensation reserve to a fiscally prudent level.

Action will be completed as part of the Budget process.

Finding No. 14: Improvements were needed to enhance the accountability and control of gasoline and diesel fuel usage.

Response: Agree
Status: In progress
Corrective Action

With the rising cost of fuel, controls over fuel usage are important. As a result of last year's audit, a memorandum was issued to department supervisors which included a requirement to "review and verify monthly fuel reports." This review requires a submission of "verification to transportation department by 20th of each month; (Noting any discrepancies in mpg, odometer input, amount dispensed, time dispensed, and personal ID.)" In addition, a master key log sheet was established to record master key usage transactions. The master keys are only used in the event that a vehicle or personal key has malfunctioned and needs to be replaced. If the transportation bookkeeper is not on duty to replace key, a master key is used.

During the 2011-12 fiscal year, three transactions for September had inadvertently not been transferred to the document by the transportation bookkeeper. The Trac fuel system does record whose key was used yet does not recognize it to print on fuel reports. Going forward the Transportation department will input all departments' transactions on a spreadsheet to calculate fuel usage and will make it mandatory that department supervisors provide the Supervisor of Transportation with every fuel transaction (County or District facility) monthly; to include vehicle number, dates, mileage, and number of gallons pumped. The spreadsheet will provide a more accurate mpg and enable a more accurate review by the Director of Transportation of the usage report.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The credit card usage identified was due to no District fueling station in the Marathon area. The District and Board of County Commissioners (BOCC) have a joint use fueling facilities agreement. Each fueling station is open 24/7 as County vehicles and Sheriff's Department use facilities and must have access anytime. BOCC sites are used whenever District facilities are out of order. Use of BOCC facilities may result in mpg discrepancies. However, when the BOCC changed to Bio-Diesel fuel the school buses were unable to use them due to the possibility that warranties would be compromised. School bus manufacturers have since provided information that County Bio-Diesel blend is acceptable (B5). Going forward, District buses will use County facilities as long as this blend is maintained, eliminating excessive usage of fuel credit cards. In addition, a log will be kept whenever the fueling system malfunctions or is out of order to better monitor multiple entries, credit card or County facility usage.

Currently, department supervisors are notified by the transportation bookkeeper when reports are posted to the MCSD website. They are asked to contact Wayne Goldstein if there are any discrepancies in accordance with the procedure identified. When reviewing monthly usage reports the Director of Transportation looks for time of fueling and dates, to monitor transactions being done during working hours for District vehicles and compares usage to the usage spreadsheet and department head discrepancy reports. Going forward the Director of Transportation will evidence this review and follow up regarding any discrepancies noted. The Director of Transportation will identify department heads who do not (positively) confirm their usage to the Superintendent. The Executive Team will handle accordingly.

The School District will release an RFP to outsource Transportation.

Finding No. 15: The District's information technology disaster recovery plan had not been tested.

Response: **Agree**
Status: **In Progress**
Corrective Action

As noted in a previous Audit report the Key Largo center is intended to be capable of running the District's critical business systems. The disaster recovery plan referred to various locations for off-site data storage. However, the plan did not identify the location of particular backed-up files. Although some of the District's backups have been tested, there has been no disaster recovery simulation testing and evaluation of the District's disaster recovery plan. The District has a long term goal of a full Alternate Data Recovery (ADR) site in Key Largo. This requires additional expense to be fully functional including replacement servers and a secondary path for infrastructure (wiring).

The current infrastructure in Key Largo is fully operational and tested daily to ensure back up files are properly replicated and identical to the main site in Key West. This back up technology is superior to other districts which use a monthly tape back-up and restoration at an alternate district site as 1)the data is current, 2)all system terminals can still access the system 3)there is minimal disruption to personnel. In meeting with the Auditor General staff it was agreed that a formal, documented test should be conducted in an additional site to ensure critical functions can be supported on the alternate server in Key Largo in accordance with the disaster recovery plan. This test is in progress and initial results look favorable.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

FEDERAL AWARDS FINDINGS

Federal Awards Finding No. 1: Allocations of salaries and benefits charged to the Child Nutrition Cluster programs were not adequately documented.

Response: **Agree**
Status: **In Progress**
Corrective Action

As noted, cost allocations were provided to the Auditor General staff which support the allocated expenses on a conservative basis using a calculation of coverage on a square footage basis. Going forward calculations of allocated costs to support salary and benefit expenditures will be based on usage and services provided to Food Services by GCA, the third party vendor. This issue of PAR forms and allocation of individual, internal labor costs and benefits will be moot with a third party cost allocation.

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 $2,072.90 of questioned costs.

Response: **Agree**
Status: **Complete**
Corrective Action

See response for Finding 11.

Federal Awards Finding No. 3: Procedures should be enhanced as necessary to provide adequate control over tangible personal property used in Federal programs.

Response: **Agree**
Status: **In Progress**
Corrective Action

See response for Finding 7.