

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2010



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Logan Kever	1
Thomas W. Duggar, Sr.	2
Darrel Hayes, Vice Chair	3
Kyle Peddie, Chair	4
Roger Reddick	5

Dr. Sue Summers, 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 Heather Donovan, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

LIBERTY 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

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 1: District performance assessment procedures for instructional personnel and school administrators were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

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

Finding No. 3: The District used capital outlay millage levy moneys for purposes contrary to Section 1011.71(5), Florida Statutes, resulting in \$35,030.79 of questioned costs.

Finding No. 4: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 5: The District's procedures for reviewing the appropriateness of employee IT access privileges needed improvement.

Finding No. 6: The District needed to enhance its procedures to ensure the timely removal of IT access privileges of former employees.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; and State Fiscal Stabilization Fund Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, with the exception of the Special Education program. A noncompliance and control deficiency finding is summarized below.

Federal Awards Finding No. 1: District records did not evidence that the District met the maintenance of effort requirement for Special Education programs, resulting in \$543,718 of questioned costs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2010-099.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Liberty County District School Board, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 21 percent of the assets and 77 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report 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 report of the other auditors provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Liberty County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 36 through 39) 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
February 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 35.

FINANCIAL HIGHLIGHTS

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

- In total, net assets decreased \$350,535.74, which may be compared to the increase of \$12,507,880.44 in the previous year.
- General revenues total \$14,415,844.70, or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$967,663.55, or 6 percent of all revenues.
- Expenses total \$15,734,043.99; only \$967,663.55 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total expenditures exceeded revenues by \$350,535.74.
- During the current year, General Fund revenues exceeded total expenses by \$643,550.81.
- Funding from the Florida Education Finance Program (FEFP) decreased by \$289,906 from the 2008-09 fiscal year.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$1,998,241.69 at June 30, 2010.
- The District's student enrollment increased by 19 students or 1 percent from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements; MD&A, the budgetary comparison schedule, and the schedule of funding progress are included as required supplementary information.

Government-wide Financial Statements

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

assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and the State's education finance program finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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

Fund Financial Statements

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

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

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

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

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

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements

because the resources are not available to support the District’s own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Net Assets, End of Year	
	Governmental Activities	
	6-30-10	6-30-09
Current Assets	\$ 3,113,251.28	\$ 7,561,005.64
Capital Assets	29,770,428.72	28,176,126.43
Total Assets	32,883,680.00	35,737,132.07
Long-Term Liabilities	2,010,172.42	2,169,998.82
Other Liabilities	272,137.83	2,615,227.76
Total Liabilities	2,282,310.25	4,785,226.58
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	28,844,504.67	27,788,126.43
Restricted	1,465,795.81	2,777,658.23
Unrestricted	291,069.27	386,120.83
Total Net Assets	\$ 30,601,369.75	\$ 30,951,905.49

The largest portion of the District’s net assets (94 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The purpose of these capital assets is to educate the students residing in the County; thus, these assets are not available for future spending. The resources needed to repay the capital asset related debt must come from other sources, as the capital assets themselves are not available for debt liquidation.

A portion of the net assets (5 percent) represents resources that are subject to external restrictions. The unrestricted net assets (1 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

Other liabilities decreased by \$2,343,089.93, or 90 percent and current assets decreased by \$4,447,754.36, or 59 percent. This is due to final disbursements and the completion of the Hosford Elementary and Jr. High School

classroom additions and renovations project and the resulting decrease of current assets and construction-related payables.

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

	Operating Results for the Year	
	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 332,339.61	\$ 384,889.15
Operating Grants and Contributions	556,078.19	811,569.52
Capital Grants and Contributions	79,245.75	13,879,559.90
General Revenues:		
Property Taxes, Levied for Operational Purposes	1,500,291.74	1,509,181.00
Property Taxes, Levied for Capital Projects	363,537.93	438,086.85
Grants and Contributions Not Restricted to Specific Programs	12,154,177.77	11,379,354.89
Unrestricted Investment Earnings	51,897.11	22,827.35
Miscellaneous	345,940.15	180,560.17
Total Revenues	15,383,508.25	28,606,028.83
Functions/Program Expenses:		
Instruction	7,273,923.84	8,436,978.94
Pupil Personnel Services	382,759.83	399,137.63
Instructional Media Services	223,533.78	119,019.54
Instruction and Curriculum Development Services	426,364.27	431,220.54
Instructional Staff Training Services	260,316.66	317,031.77
Instruction Related Technology	238,332.24	144,638.75
School Board	366,549.11	366,578.02
General Administration	302,759.37	284,642.37
School Administration	507,648.80	571,994.47
Facilities Acquisition and Construction	776,046.39	273,900.75
Fiscal Services	296,216.34	270,766.40
Food Services	723,317.83	741,698.10
Central Services	1,381.41	1,991.16
Pupil Transportation Services	628,682.28	697,094.27
Operation of Plant	1,223,327.94	1,165,219.35
Maintenance of Plant	210,655.75	207,311.21
Administrative Technology Services	356,455.41	323,783.89
Community Services	705,504.68	586,853.63
Unallocated Interest on Long-Term Debt	17,383.58	21,388.00
Unallocated Depreciation Expense	801,656.86	721,082.27
Loss on Disposal of Capital Assets	11,227.62	15,817.33
Total Functions/Program Expenses	15,734,043.99	16,098,148.39
Increase (Decrease) in Net Assets	\$ (350,535.74)	\$ 12,507,880.44

The largest revenue source is the State of Florida (56 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

Capital grants and contributions decreased by \$13,800,314.15, or 99 percent. This is primarily due to the receipt, in the previous year, of Special Public Education Capital Outlay appropriations for the Hosford Elementary and Jr. High School Classroom additions and renovations project.

Grants and contributions not restricted to specific programs revenues increased by \$774,822.88, or 7 percent. This is primarily due to the receipt of American Recovery and Reinvestment Act (ARRA) Federal funds of \$1,023,495.95, which were partially offset by a decrease in State funding of \$482,956.68 and an increase in other Federal funding of \$233,602.22.

Instructional expenses represent 46 percent of total governmental expenses in the 2009-10 fiscal year. Instructional expenses decreased by \$1,163,055.10, or 14 percent, from the previous year, primarily due to reductions in staffing through retirements and non-renewal of certain annual contract personnel.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The focus of the District's governmental funds is to provide information on near-term outflows and balances of spendable resources. Such information is useful in assessing the District's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$2,841,113.45, a decrease of \$2,104,664.43 from the prior year. Approximately 91 percent of this total amount, or \$2,575,858.67, represents unreserved fund balances. The remainder is reserved due to previous commitments for State required carryover programs totaling \$157,852.68, inventory totaling \$35,486.64, and debt service totaling \$71,915.46.

The General Fund is the primary operating fund. At June 30, 2010, the General Fund unreserved fund balance is \$1,998,241.69, while total fund balance is \$2,156,094.37. As a measure of the General Fund liquidity, it may be useful to compare total fund balances to total expenditures. The unreserved fund balance is 19 percent of total General Fund expenditures.

The fund balance of the District's General Fund increased by \$901,299.68 during the current fiscal year. This was primarily due to reductions in expenditures during the current year.

The Special Revenue – Other Fund has total revenues and expenditures of \$2,002,169.71 each. This fund is used to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

The Special Revenue – ARRA Economic Stimulus Fund has total revenues and expenditures of \$1,023,495.95 each. This fund is used to account for certain Federal program resources related to the American Recovery and Reinvestment Act (ARRA). Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

The Debt Service – Other Fund is used to account for repayments to the Florida Special Facilities Trust Fund, and does not have fund balance because transfers from capital projects funds accounted for in this fund are due to the Florida Department of Education as of June 30, 2010.

The Capital Projects – Public Education Capital Outlay Fund has a total ending fund balance of \$296,963.00, representing a decrease of \$2,256,909.11 from the previous year. This reduction is primarily due to the completion of the Hosford Elementary and Jr. High School additions and renovations project.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

During the course of the 2009-10 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted expenditures and other financing uses amounting to \$320,990.39, or 3 percent. During the same period, final budget revenues and other financing sources were more than the original budgeted amounts by \$498,380.26.

Actual revenues and other financing sources were \$147,854.10 less than the final budgeted amounts and actual expenditures and other financing uses were \$1,204,989.88 less than the final budgeted amounts. Actual expenditures were less than final budgeted expenditures because planned salary step increases were not provided. Positive budget variances occurred in all functions except School Board, which had a negative variance of \$54,366.46. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$1,057,135.78.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets, net of accumulated depreciation, for the governmental activities as of June 30, 2010, amounted to \$29,770,428.72. The investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; and motor vehicles. During the 2009-10 fiscal year, the District completed work on two major construction projects, including building additions and renovations at Liberty County High School and Hosford Elementary and Jr. High K-8 School. Additional information on the District's capital assets can be found in Note 4 of the financial statements.

Long-Term Debt

At June 30, 2010, the District has total bonded debt outstanding of \$303,000. The full amount is comprised of State School and District Revenue Bonds. During the year, retirement of debt amounted to \$215,000. The District also has a Special Public Education Capital Outlay Advance Payable of \$622,924.05. Additional information on the District's long-term debt can be found in Notes 5 through 7 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Liberty County District School Board'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 Director of Finance, Liberty County District School Board, P. O. Box 429, Bristol, FL 32321.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 2,970,655.42
Investments	60,512.59
Due from Other Agencies	46,596.63
Inventories	35,486.64
Capital Assets:	
Nondepreciable Capital Assets	875,603.83
Depreciable Capital Assets, Net	28,894,824.89
TOTAL ASSETS	\$ 32,883,680.00
LIABILITIES	
Payroll Deductions and Withholdings	\$ 187,579.28
Due to Other Agencies	84,459.63
Deposits Payable	98.92
Long-Term Liabilities:	
Portion Due Within One Year	348,884.20
Portion Due After One Year	1,661,288.22
Total Liabilities	2,282,310.25
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	28,844,504.67
Restricted for:	
State Required Carryover Programs	157,852.68
Debt Service	71,915.46
Capital Projects	1,189,206.08
Food Service	46,821.59
Unrestricted	291,069.27
Total Net Assets	30,601,369.75
TOTAL LIABILITIES AND NET ASSETS	\$ 32,883,680.00

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 7,273,923.84	\$ 115,348.52	\$	\$	\$ (7,158,575.32)
Pupil Personnel Services	382,759.83				(382,759.83)
Instructional Media Services	223,533.78				(223,533.78)
Instruction and Curriculum Development Services	426,364.27				(426,364.27)
Instructional Staff Training Services	260,316.66				(260,316.66)
Instruction Related Technology	238,332.24				(238,332.24)
School Board	366,549.11				(366,549.11)
General Administration	302,759.37				(302,759.37)
School Administration	507,648.80				(507,648.80)
Facilities Acquisition and Construction	776,046.39			13,891.31	(762,155.08)
Fiscal Services	296,216.34				(296,216.34)
Food Services	723,317.83	216,991.09	556,078.19		49,751.45
Central Services	1,381.41				(1,381.41)
Pupil Transportation Services	628,682.28				(628,682.28)
Operation of Plant	1,223,327.94				(1,223,327.94)
Maintenance of Plant	210,655.75			33,935.00	(176,720.75)
Administrative Technology Services	356,455.41				(356,455.41)
Community Services	705,504.68				(705,504.68)
Unallocated Interest on Long-Term Debt	17,383.58			31,419.44	14,035.86
Unallocated Depreciation Expense*	801,656.86				(801,656.86)
Loss on Disposal of Capital Assets	11,227.62				(11,227.62)
Total Governmental Activities	\$ 15,734,043.99	\$ 332,339.61	\$ 556,078.19	\$ 79,245.75	(14,766,380.44)
General Revenues:					
Taxes:					
					1,500,291.74
Property Taxes, Levied for Operational Purposes					363,537.93
Property Taxes, Levied for Capital Projects					12,154,177.77
Grants and Contributions Not Restricted to Specific Programs					51,897.11
Unrestricted Investment Earnings					345,940.15
Miscellaneous					
Total General Revenues					14,415,844.70
Change in Net Assets					(350,535.74)
Net Assets - Beginning					30,951,905.49
Net Assets - Ending					\$ 30,601,369.75

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

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,303,158.06	\$ 1,504.49	\$	\$
Investments	53,592.27			
Due from Other Funds	27,165.51			13,917.32
Due from Other Agencies	31,347.73	6,800.49	92.55	
Inventories				
TOTAL ASSETS	\$ 2,415,263.57	\$ 8,304.98	\$ 92.55	\$ 13,917.32
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 187,579.28	\$	\$	\$
Due to Other Funds	1,047.61	8,304.98	92.55	
Due to Other Agencies	70,542.31			13,917.32
Deposits Payable				
Total Liabilities	259,169.20	8,304.98	92.55	13,917.32
Fund Balances:				
Reserved for State Required Carryover Programs	157,852.68			
Reserved for Inventories				
Reserved for Debt Service				
Unreserved, Reported in:				
General Fund	1,998,241.69			
Special Revenue Funds				
Capital Projects Funds				
Total Fund Balances	2,156,094.37			
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,415,263.57	\$ 8,304.98	\$ 92.55	\$ 13,917.32

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

Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$ 296,963.00	\$ 369,029.87	\$ 2,970,655.42
	6,920.32	60,512.59
	1,047.61	42,130.44
	8,355.86	46,596.63
	35,486.64	35,486.64
<u>\$ 296,963.00</u>	<u>\$ 420,840.30</u>	<u>\$ 3,155,381.72</u>
\$	\$	\$
	32,685.30	187,579.28
		42,130.44
		84,459.63
	98.92	98.92
	<u>32,784.22</u>	<u>314,268.27</u>
		157,852.68
	35,486.64	35,486.64
	71,915.46	71,915.46
		1,998,241.69
296,963.00	11,334.95	11,334.95
	<u>269,319.03</u>	<u>566,282.03</u>
<u>296,963.00</u>	<u>388,056.08</u>	<u>2,841,113.45</u>
<u>\$ 296,963.00</u>	<u>\$ 420,840.30</u>	<u>\$ 3,155,381.72</u>

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

Total Fund Balances - Governmental Funds \$ 2,841,113.45

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. 29,770,428.72

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ 303,000.00	
Special Public Education Capital Outlay Advance Payable	622,924.05	
Compensated Absences Payable	759,501.37	
Other Postemployment Benefits Payable	324,747.00	<u>(2,010,172.42)</u>

Total Net Assets - Governmental Activities \$ 30,601,369.75

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

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

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 57,059.03	\$	\$	\$
Federal Through State and Local State	526,419.86	2,002,169.71	1,023,495.95	
State	8,545,033.22			
Local:				
Property Taxes	1,500,291.74			
Charges for Services - Food Service				
Miscellaneous	502,765.44			
Total Revenues	11,131,569.29	2,002,169.71	1,023,495.95	
Expenditures				
Current - Education:				
Instruction	5,543,361.93	881,190.32	737,786.48	
Pupil Personnel Services	192,728.69	177,195.38	8,405.91	
Instructional Media Services	186,289.49	32,821.67		
Instruction and Curriculum Development Services	325,421.52	69,272.81	24,396.90	
Instructional Staff Training Services	77,043.79	149,488.50	32,006.94	
Instruction Related Technology	156,910.93		77,664.03	
School Board	363,266.72			
General Administration	243,145.59	39,881.19	14,648.72	
School Administration	495,932.76			
Facilities Acquisition and Construction	91,877.25			
Fiscal Services	289,684.20			
Food Services	321.38			
Central Services	1,168.27			
Pupil Transportation Services	532,015.23	12,428.38		
Operation of Plant	1,213,904.22			
Maintenance of Plant	207,875.65			
Administrative Technology Services	349,384.72			
Community Services	140,040.38	563,086.08		
Fixed Capital Outlay:				
Facilities Acquisition and Construction	27,683.63			
Other Capital Outlay	49,962.13	76,805.38	128,586.97	
Debt Service:				
Principal				274,321.43
Interest and Fiscal Charges				
Total Expenditures	10,488,018.48	2,002,169.71	1,023,495.95	274,321.43
Excess (Deficiency) of Revenues Over Expenditures	643,550.81			(274,321.43)
Other Financing Sources (Uses)				
Transfers In	257,748.87			274,321.43
Refunding Bonds Issued				
Premium on Refunding Bonds				
Payments to Refunded Bond Escrow Agent				
Transfers Out				
Total Other Financing Sources (Uses)	257,748.87			274,321.43
Net Change in Fund Balances	901,299.68			
Fund Balances, Beginning	1,254,794.69			
Fund Balances, Ending	\$ 2,156,094.37	\$ 0.00	\$ 0.00	\$ 0.00

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

Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	529,585.43	57,059.03
33,935.00	57,066.75	4,081,670.95
	363,537.93	8,636,034.97
	216,991.09	1,863,829.67
4,234.33	24,649.77	216,991.09
	24,649.77	531,649.54
<u>38,169.33</u>	<u>1,191,830.97</u>	<u>15,387,235.25</u>
		7,162,338.73
		378,329.98
		219,111.16
		419,091.23
		258,539.23
		234,574.96
		363,266.72
		297,675.50
		495,932.76
518,658.87	153,608.27	764,144.39
		289,684.20
	722,987.63	723,309.01
		1,168.27
		544,443.61
		1,213,904.22
		207,875.65
		349,384.72
		703,126.46
1,855,256.58	24,800.00	1,907,740.21
147,489.75	184,889.86	587,734.09
	80,000.00	354,321.43
	17,383.58	17,383.58
<u>2,521,405.20</u>	<u>1,183,669.34</u>	<u>17,493,080.11</u>
<u>(2,483,235.87)</u>	<u>8,161.63</u>	<u>(2,105,844.86)</u>
260,323.49		792,393.79
	130,000.00	130,000.00
	14,775.80	14,775.80
	(143,595.37)	(143,595.37)
<u>(33,996.73)</u>	<u>(758,397.06)</u>	<u>(792,393.79)</u>
<u>226,326.76</u>	<u>(757,216.63)</u>	<u>1,180.43</u>
(2,256,909.11)	(749,055.00)	(2,104,664.43)
<u>2,553,872.11</u>	<u>1,137,111.08</u>	<u>4,945,777.88</u>
<u>\$ 296,963.00</u>	<u>\$ 388,056.08</u>	<u>\$ 2,841,113.45</u>

**LIBERTY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010**

Net Change in Fund Balances - Governmental Funds \$ (2,104,664.43)

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 period. 1,605,529.91

The undepreciated cost of capital assets disposed of during the current period is reported in the statement of activities. The cost of these assets was recognized as an expenditure in the governmental funds in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (11,227.62)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceed proceeds in the current period.

	\$ (130,000.00)	
Bond Refunding		
Repayment of Bonds Principal	215,000.00	85,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (28,985.60)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (160,602.00)

Special Public Education Capital Outlay Advances provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. This is the net decrease in the Special Public Education Capital Advance liability in the current period. 264,414.00

Change in Net Assets - Governmental Activities \$ (350,535.74)

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 109,840.00
LIABILITIES	
Accounts Payable	\$ 24.00
Internal Accounts Payable	<u>109,816.00</u>
TOTAL LIABILITIES	<u>\$ 109,840.00</u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

➤ **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 primary government.

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – Other Fund – to account for the accumulation of financial resources for the payment of debt principal, interest, and related costs for the Special Public Education Capital Outlay Advance Payable.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary 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 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include a certificate of deposit and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, 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. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

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

Investments made locally consist of a certificate of deposit, which is reported at cost. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, 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 costs of inventories are recorded as expenditures during the year, and are adjusted to reflect year-end physical inventories.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. 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.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	8 - 35 years
Buildings and Fixed Equipment	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 20 years
Motor Vehicles	5 - 10 years

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

➤ **Long-Term Liabilities**

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

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

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

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

➤ **State Revenue Sources**

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

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

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

programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

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

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2008-09 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facilities Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following three fiscal years. During the three-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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

➤ **District Property Taxes**

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

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

The Board adopted the 2009 tax levy on September 18, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	\$ 2,151,532.05
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	53,592.27
Debt Service Accounts	6 Months	6,920.32
Certificate of Deposit (1)(2)	September 2010	80,243.57
Total Investments, Reporting Entity		<u>\$ 2,292,288.21</u>

Notes: (1) Investment reported as a cash equivalent for financial statement reporting purposes.

(2) A portion of the certificate of deposit, \$64,575, is reserved for the Certificates of Indebtedness, Series 1977, bond issue.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

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

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to bids from qualified depositories, certificates of deposit, time deposits, securities of the United States Government, State managed cooperative investment plans, or other forms of authorized investments in accordance with Section 218.415, Florida Statutes.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investment in a certificate of deposit is in a qualified public depository.

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	\$ 875,603.83	\$	\$	\$ 875,603.83
Construction in Progress	11,870,029.51	1,725,923.78	13,595,953.29	
Total Capital Assets Not Being Depreciated	<u>12,745,633.34</u>	<u>1,725,923.78</u>	<u>13,595,953.29</u>	<u>875,603.83</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,804,428.15	101,464.82		1,905,892.97
Buildings and Fixed Equipment	19,671,807.05	13,692,983.20	6,468.00	33,358,322.25
Furniture, Fixtures, and Equipment	2,213,874.85	463,955.79	347,032.84	2,330,797.80
Motor Vehicles	1,412,856.61	95,198.00	57,598.80	1,450,455.81
Total Capital Assets Being Depreciated	<u>25,102,966.66</u>	<u>14,353,601.81</u>	<u>411,099.64</u>	<u>39,045,468.83</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,026,442.96	76,822.81		1,103,265.77
Buildings and Fixed Equipment	6,111,005.92	445,627.85	6,468.00	6,550,165.77
Furniture, Fixtures, and Equipment	1,468,241.76	279,206.20	335,805.22	1,411,642.74
Motor Vehicles	1,066,782.93	76,385.53	57,598.80	1,085,569.66
Total Accumulated Depreciation	<u>9,672,473.57</u>	<u>878,042.39</u>	<u>399,872.02</u>	<u>10,150,643.94</u>
Total Capital Assets Being Depreciated, Net	<u>15,430,493.09</u>	<u>13,475,559.42</u>	<u>11,227.62</u>	<u>28,894,824.89</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,176,126.43</u>	<u>\$ 15,201,483.20</u>	<u>\$ 13,607,180.91</u>	<u>\$ 29,770,428.72</u>

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 76,385.53
Unallocated	801,656.86
	878,042.39
Total Depreciation Expense - Governmental Activities	\$ 878,042.39

5. SPECIAL PUBLIC EDUCATION CAPITAL OUTLAY ADVANCE PAYABLE

The liability at June 30, 2010, of \$622,924.05 represents the amount of the Public Education Capital Outlay Special Facilities allocation expected to be replaced by other District capital outlay sources that are committed under Section 1013.64, Florida Statutes, for funding specific construction needs. The liability is expected to be retired by the close of the 2011-12 fiscal year.

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	\$ 35,000	5.0	2016
Series 2005B, Refunding	80,000	5.0	2018
Series 2009A, Refunding	125,000	2.0-5.0	2019
District Revenue Bonds:			
Series 1977	63,000	5.0	2010
Total Bonds Payable	\$ 303,000		

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.

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

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 77-596, Special Acts of 1977, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Liberty County from the State’s Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 26,700.00	\$ 15,000.00	\$ 11,700.00
2012	36,050.00	25,000.00	11,050.00
2013	34,900.00	25,000.00	9,900.00
2014	33,750.00	25,000.00	8,750.00
2015	40,250.00	30,000.00	10,250.00
2016-2019	<u>135,500.00</u>	<u>120,000.00</u>	<u>15,500.00</u>
Total State School Bonds	<u>307,150.00</u>	<u>240,000.00</u>	<u>67,150.00</u>
District Revenue Bonds:			
2011	<u>64,575.00</u>	<u>63,000.00</u>	<u>1,575.00</u>
Total	<u>\$ 371,725.00</u>	<u>\$ 303,000.00</u>	<u>\$ 68,725.00</u>

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 388,000.00	\$ 130,000.00	\$ 215,000.00	\$ 303,000.00	\$ 78,000.00
Special Public Education Capital Outlay Advance Payable	887,338.05	9,907.43	274,321.43	622,924.05	265,121.32
Compensated Absences Payable	730,515.77	91,496.48	62,510.88	759,501.37	5,762.88
Other Postemployment Benefits Payable	<u>164,145.00</u>	<u>261,883.00</u>	<u>101,281.00</u>	<u>324,747.00</u>	
Total Governmental Activities	<u>\$ 2,169,998.82</u>	<u>\$ 493,286.91</u>	<u>\$ 653,113.31</u>	<u>\$ 2,010,172.42</u>	<u>\$ 348,884.20</u>

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

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

8. 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	\$ 27,165.51	\$ 1,047.61
Special Revenue:		
Other		8,304.98
ARRA Economic Stimulus		92.55
Debt Service - Other	13,917.32	
Nonmajor Governmental	1,047.61	32,685.30
 Total	 \$ 42,130.44	 \$ 42,130.44

These interfund amounts represent food service moneys owed to the Special Revenue – Food Service Fund from the General Fund, a temporary loan from the Special Revenue – Other Fund to the General Fund, and for the repayment of the Public Education Capital Outlay (PECO) Special Facilities allocation to the Debt Service – Other Fund. All are expected to be paid in one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 257,748.87	\$
Debt Service:		
Other	274,321.43	
Capital Projects:		
Public Education Capital Outlay	260,323.49	33,996.73
Nonmajor Governmental		758,397.06
 Total	 \$ 792,393.79	 \$ 792,393.79

The principal purposes of the interfund transfers are to provide for the repayment of the PECO Special Facilities allocation, the transfer of PECO maintenance to the General Fund, the transfer of Local Capital Improvement funds to the General Fund for property and casualty premiums, and the transfer of unrestricted debt service moneys to the General Fund.

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

9. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010. There were no outstanding purchase orders at June 30, 2010.

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 6,698,173.00
Categorical Educational Program - Class Size Reduction	1,317,887.00
Workforce Development Program	37,662.00
Gross Receipts Tax (Public Education Capital Outlay)	33,935.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	32,100.83
School Recognition Program	21,524.00
Food Service Supplement	11,756.00
Mobile Home License Tax	4,271.44
Discretionary Lottery Funds	3,551.00
Miscellaneous	475,174.70
Total	\$ 8,636,034.97

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

11. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.195	\$ 1,341,446
Basic Discretionary Local Effort	0.748	193,148
Critical Operating Needs	0.250	64,555
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	387,328
Total	7.693	\$ 1,986,477

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

12. 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, and 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.

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

FRS Retirement Contribution Rates

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

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$787,940.20, \$800,648.66, and \$742,916.22, respectively, which were equal to the required contributions for each fiscal year. There were 13 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$43,840.42.

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.

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical, prescription drug coverages, and life insurance benefits. 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, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The amount of contributions required for retiree dependent coverage may change from time to time. Currently, the Board

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

contributes \$2 per year of service for each retiree toward their monthly insurance premium with a maximum of \$60. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 16 retirees received other postemployment benefits. The District’s contribution to the OPEB obligation is the implicit subsidiary for the retirees, which was \$101,281. Plan members receiving benefits contributed \$118,187 through their required contributions ranging from \$337 to \$424 per month for retiree-only coverage, and from \$797 to \$1,003 for retiree and spouse coverage, depending on the health plan selected.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 147,262
Amortization of Unfunded Actuarial Accrued Liability	101,955
Interest on Normal Cost and Amortization	<u>11,973</u>
Annual Required Contribution	261,190
Interest on Net OPEB Obligation	5,827
Adjustment to Annual Required Contribution	<u>(5,134)</u>
Annual OPEB Cost (Expense)	261,883
Contribution Toward the OPEB Cost	<u>(101,281)</u>
Increase in Net OPEB Obligation	160,602
Net OPEB Obligation, Beginning of Year	<u>164,145</u>
Net OPEB Obligation, End of Year	<u><u>\$ 324,747</u></u>

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0.00%	\$ 0
2008-09	251,799	34.81%	164,145
2009-10	261,883	38.67%	324,747

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was \$3,079,886, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,079,886 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$4,537,459, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 67.88 percent.

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

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

The District’s initial OPEB actuarial valuation as of October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and to estimate the District’s 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially for beginning October 1, 2009, reduced to an ultimate rate of 5 percent after 8 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 28 years.

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

14. 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. The Liberty County District School Board is a member of the Panhandle Area Educational Consortium- Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium and reports the financial statements and transfers for the Consortium.

The District obtains its employee group health insurance through an HMO (Health Maintenance Organization).

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 60,000.00	\$ 60,000.00	\$ 57,059.03	\$ (2,940.97)
Federal Through State and Local	475,000.00	539,582.87	526,419.86	(13,163.01)
State	8,839,631.00	8,839,083.00	8,545,033.22	(294,049.78)
Local:				
Property Taxes	1,291,861.00	1,540,037.00	1,500,291.74	(39,745.26)
Miscellaneous	372,300.00	407,221.60	502,765.44	95,543.84
Total Revenues	11,038,792.00	11,385,924.47	11,131,569.29	(254,355.18)
Expenditures				
Current - Education:				
Instruction	6,214,040.08	6,169,414.91	5,543,361.93	626,052.98
Pupil Personnel Services	196,635.82	197,797.68	192,728.69	5,068.99
Instructional Media Services	171,713.99	202,139.65	186,289.49	15,850.16
Instruction and Curriculum Development Services	414,675.72	416,936.26	325,421.52	91,514.74
Instructional Staff Training Services	78,121.03	82,319.98	77,043.79	5,276.19
Instruction Related Technology	161,662.25	160,008.13	156,910.93	3,097.20
School Board	356,276.48	308,900.26	363,266.72	(54,366.46)
General Administration	257,934.06	255,874.71	243,145.59	12,729.12
School Administration	520,069.60	517,875.59	495,932.76	21,942.83
Facilities Acquisition and Construction	184,893.27	119,553.12	91,877.25	27,675.87
Fiscal Services	351,015.11	464,855.94	289,684.20	175,171.74
Food Services		321.38	321.38	
Central Services	1,283.80	2,494.12	1,168.27	1,325.85
Pupil Transportation Services	582,094.11	599,040.41	532,015.23	67,025.18
Operation of Plant	1,085,527.23	1,290,163.16	1,213,904.22	76,258.94
Maintenance of Plant	187,467.28	214,753.73	207,875.65	6,878.08
Administrative Technology Services	358,377.53	364,837.98	349,384.72	15,453.26
Community Services	170,959.11	168,804.09	140,040.38	28,763.71
Fixed Capital Outlay:				
Facilities Acquisition and Construction		27,683.63	27,683.63	
Other Capital Outlay		49,962.13	49,962.13	
Total Expenditures	11,292,746.47	11,613,736.86	10,488,018.48	1,125,718.38
Excess (Deficiency) of Revenues Over Expenditures	(253,954.47)	(227,812.39)	643,550.81	871,363.20
Other Financing Sources (Uses)				
Transfers In		151,247.79	257,748.87	106,501.08
Transfers Out	(79,271.50)	(79,271.50)		79,271.50
Total Other Financing Sources (Uses)	(79,271.50)	71,976.29	257,748.87	185,772.58
Net Change in Fund Balances	(333,225.97)	(155,836.10)	901,299.68	1,057,135.78
Fund Balances, Beginning	1,254,794.69	1,254,794.69	1,254,794.69	
Fund Balances, Ending	\$ 921,568.72	\$ 1,098,958.59	\$ 2,156,094.37	\$ 1,057,135.78

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,091,761.93	\$ 2,428,419.68	\$ 2,002,169.71	\$ (426,249.97)	\$ 1,120,099.00	\$ 1,305,955.32	\$ 1,023,495.95	\$ (282,459.37)
<u>2,091,761.93</u>	<u>2,428,419.68</u>	<u>2,002,169.71</u>	<u>(426,249.97)</u>	<u>1,120,099.00</u>	<u>1,305,955.32</u>	<u>1,023,495.95</u>	<u>(282,459.37)</u>
907,525.35	1,140,968.85	881,190.32	259,778.53	976,178.64	952,774.20	737,786.48	214,987.72
162,801.19	186,757.24	177,195.38	9,561.86	17,452.38	24,867.26	8,405.91	16,461.35
	33,070.00	32,821.67	248.33				
179,521.98	85,978.63	69,272.81	16,705.82	28,480.00	29,067.40	24,396.90	4,670.50
154,240.46	204,541.57	149,488.50	55,053.07	38,800.00	64,957.61	32,006.94	32,950.67
					77,664.03	77,664.03	
59,540.84	43,047.04	39,881.19	3,165.85	23,837.98	25,876.85	14,648.72	11,228.13
				35,350.00			
23,379.29	23,528.49	12,428.38	11,100.11		2,161.00		2,161.00
604,752.82	633,722.48	563,086.08	70,636.40				
	<u>76,805.38</u>	<u>76,805.38</u>			<u>128,586.97</u>	<u>128,586.97</u>	
<u>2,091,761.93</u>	<u>2,428,419.68</u>	<u>2,002,169.71</u>	<u>426,249.97</u>	<u>1,120,099.00</u>	<u>1,305,955.32</u>	<u>1,023,495.95</u>	<u>282,459.37</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	\$ 0	\$ 3,079,886	\$ 3,079,886	0.0%	\$ 4,537,459	67.88%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

For the fiscal year ended June 30, 2010, expenditures exceeded appropriations for the following individual fund:

Fund/Activity	Expenditures		
	Budget	Actual	Variance Unfavorable
General: School Board	\$ 308,900.26	\$ 363,266.72	\$ (54,366.46)

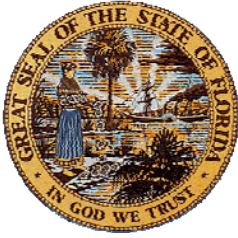
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education: School Breakfast Program	10.553	321	\$ 120,030.11
National School Lunch Program	10.555	300	335,296.42
Florida Department of Agriculture and Consumer Services: National School Lunch Program	10.555 (2)	None	41,106.68
Total Child Nutrition Cluster			496,433.21
Florida Department of Health: Child and Adult Care Food Program	10.558	None	33,152.22
Florida Department of Education: ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	35,350.00
Florida Department of Financial Services: Secure Payments for States and Counties Containing Federal Lands	10.665	None	354,782.08
Total United States Department of Agriculture			919,717.51
United States Department of Education:			
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027	262, 263	422,279.01
Special Education - Preschool Grants	84.173	267	26,871.74
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	211,091.64
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	9,933.25
Total Special Education Cluster			670,175.64
Florida Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	570,645.97
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	275,139.19
Total Title I, Part A Cluster			845,785.16
Florida Department of Education:			
State Fiscal Stabilization Fund Cluster:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	442,557.97
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	39,785.45
Total State Fiscal Stabilization Fund Cluster			482,343.42
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	32,504.45
Career and Technical Education - Basic Grants to States	84.048	161	232,461.42
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	5,068.94
Even Start - State Educational Agencies	84.213	219	180,257.86
Twenty-First Century Community Learning Centers	84.287	244	435,691.35
Transition to Teaching	84.350	227	21,285.70
Improving Teacher Quality State Grants	84.367	224	66,403.91
ARRA - Education Technology State Grants, Recovery Act	84.386	121	1,588.05
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	8,050.40
Total United States Department of Education			2,981,616.30
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education: Learn and Serve America - School and Community Based Programs	94.004	234	8,699.36
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	57,059.03
Total Expenditures of Federal Awards			\$ 3,967,092.20

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

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



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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, each major fund, and the aggregate remaining fund information of the Liberty County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Liberty 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

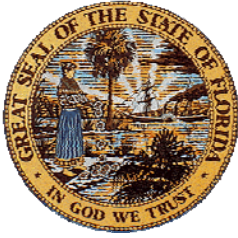
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
February 24, 2011



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
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Legislative Auditing Committee

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

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

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

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 24, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs, except for Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 -ARRA, and 84.392 – ARRA) which was qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

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

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

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

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that instructional personnel and school administrators were not evaluated based primarily on student performance. While instructional personnel performance appraisals included student performance as a component of the evaluations, the student performance category was not the primary contributing factor used to evaluate the instructional employees' performances, but represented only 30 percent of the total evaluation points. Additionally, the school administrators' performance appraisals included student performance as a component of the evaluation, but did not sufficiently evidence a correlation between student performance and the performance assessments. For example, the evaluation form used for the school administrators' performance appraisals did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate performance. Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

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

Finding No. 2: Compensation and Salary Schedules

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

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

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

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

- **Instructional Personnel.** The instructional personnel salary schedule and union contract provided for a performance bonus equal to 5 percent of teacher's base pay for teachers meeting specified criteria. The criteria included an outstanding performance evaluation and a National Board Certified Teacher; however, District personnel indicated that no bonuses were paid during the 2009-10 fiscal year. As such, contrary to Section 1012.22(1)(c)2., Florida Statutes, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

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

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

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

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

Finding No. 3: Ad Valorem Taxation

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

The District is a member of the Panhandle Area Educational Consortium (PAEC) and participates in PAEC's Risk Management Program relating to property and casualty insurance. Several districts established the program, self-sustained through member assessments (premiums), as a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of PAEC. PAEC assessed the participating districts their applicable premiums, and the District transferred capital outlay tax levy moneys from the LCI Fund to its General Fund to reimburse certain insurance premiums, totaling \$151,247.79. However, \$35,030.79 of the amount transferred was for general liability insurance premiums, and not for insurance for educational and ancillary plants. As such, the \$35,030.79 represents questioned costs.

Without adequate controls to ensure that capital outlay tax levy proceeds are expended for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions. Section 1011.71(6), Florida Statutes, provides that a school district that violates the expenditure restrictions of Section 1011.71, Florida Statutes, shall have an equal dollar reduction in Florida Education Finance Program funds appropriated to the school district in the fiscal year following the audit citation.

Recommendation: The District should enhance its procedures to ensure that capital outlay tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of using the \$35,030.79 of capital outlay tax levy proceeds for general liability insurance or restore this amount to the LCI Fund.

Finding No. 4: Information Technology (IT) – Written Policies and Procedures

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

The District lacked written policies and procedures for the following IT functions:

- Monitoring end-user workstation administrative rights.
- Governing the creation, periodic review, and removal of user access privileges.

Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

Recommendation: The District should establish written policies and procedures to document management's expectations for the performance of the IT functions described above.

Finding No. 5: Information Technology – Review of Access Privileges

Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access computer resources inconsistent with their assigned job responsibilities. An effective IT environment is designed to control access to computer resources by assigning employees only those access privileges that are necessary for their job duties and minimize the possibility that an employee could subvert a critical process.

Although District management indicated that approval is obtained prior to assigning access privileges to newly hired employees and the appropriateness of access privileges is assessed for employees who change job duties, District management did not periodically review employee access privileges to ensure that the access privileges remained appropriate. As noted in Finding No. 4, the District did not have written policies and procedures to govern the creation or periodic review of employee access privileges. Our review of access privileges further disclosed an instance of inappropriate access that increased the risk of unauthorized disclosure, modification, and destruction of District data and IT resources and indicated a need for improved District review of access privileges. Specifically, one Finance Department employee was assigned update capabilities to all Total Educational Resource Management System (TERMS) security administrator functions. In response to audit inquiry, the District removed this employee's security administrator access.

Recommendation: The District should improve its procedures for reviewing the appropriateness of employee IT access privileges.

Finding No. 6: Information Technology – Timely Removal of Former Employee Access

Effective management of access privileges includes the timely removal of employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others.

Our audit disclosed that the District had not removed the IT access privileges of some former employees in a timely manner. Specifically, of the 15 former employees who terminated employment during the 2009-10 fiscal year, the host operating system user identification code (ID) and associated access privileges for 1 of the former employees remained active for 110 days after the employee's termination date. Additionally, TERMS user IDs and associated access privileges for 2 of the 15 former employees remained active for 145 days after the employees' termination dates.

As noted in Finding No. 4, District management had not established written policies and procedures governing the removal of former employee user IDs and associated access privileges from IT resources, which could have established District management's expectations for the removal of former employee access privileges. While we noted no errors or fraud because of this control deficiency, without timely removal of terminated employee access, there is an increased risk that access privileges could be misused.

Recommendation: The District should enhance its procedures to ensure the timely removal of IT access privileges of former employees.

FEDERAL AWARDS FINDING AND QUESTIONED COST

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: \$543,718

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations (CFR), require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year. Allowances for decreases in maintenance of effort may be made for certain reasons such as the departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities. In addition, because there was a Special Education funding increase from the prior fiscal year and other conditions were met, the District was allowed to reduce its level of State and local funding by not more than 50 percent of the increase pursuant to Title 34, Section 300.205, CFR.

The District did not have procedures to monitor its compliance with the maintenance of effort requirements during the 2009-10 fiscal year, and the State and local expenditures, in total and average per capita, decreased from the 2008-09 fiscal year to the 2009-10 fiscal year, as shown below:

Source	Fiscal Years		Difference	Amounts
	2008-09	2009-10		
State and Local Expenditures for Special Education Services Less 50 Percent Reduction in State and Local Effort (1)	\$ 3,297,972 (155,726)	\$ 2,504,577	\$ 793,395 (155,726)	
State and Local Expenditures for Special Education Services	\$ 3,142,246	\$ 2,504,577	\$ 637,669	\$ 637,669
Full-Time Equivalent (FTE) Enrollment in Special Education	301	292	9	
Average Expended Per Capita (FTE)	\$ 10,439	\$ 8,577	\$ 1,862	
Allowance for Decrease in FTE (9 FTE Decrease X \$10,439 Average Expended for 2008-09 Fiscal Year)				(93,951)
Deficiency in Expenditures of State and Local Resources				\$ 543,718

Note: (1) Special Education funding was \$372,525 and \$683,976 for the 2008-09 and 2009-10 fiscal years, respectively. \$155,726 represents 50 percent of the \$311,451 funding increase from the prior fiscal year.

Further, District records did not evidence that the District met a qualified exemption from the maintenance of effort requirement. Therefore, the deficiency in maintenance of effort from State and local funds totaling \$543,718 represents questioned costs subject to disallowance by the grantor. Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for Special Education services.

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (Florida Department of Education) its compliance with this requirement or restore \$543,718 to the Special Education programs.

District Contact Person: Teresa Yancey, Coordinator of ESE Programs

PRIOR AUDIT FOLLOW-UP

Except as discussed in the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2010-099.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2008-107 (1)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)/Procurement	District procedures did not ensure that cost reimbursements to the food service management company were limited to the maximum allowable costs and that food purchase rebates were properly received pursuant to the contract, resulting in questioned costs of \$132,000.	Partially corrected.	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2009-128 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010)/Special Tests and Provisions	District procedures did not ensure that Title I schoolwide program resources were properly allocated to the schools as required, resulting in questioned costs of \$51,385.62.	Corrected.	The District restored the questioned costs to the program.
2010-099 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility - Title I Allocations	District procedures could be enhanced to ensure that Title I schoolwide program resources are properly allocated to, and used at, schools with the greatest need. Allocation errors resulted in questioned costs of \$154,460.43.	Partially corrected.	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2010-099 (2)	Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Costs/Cost Principles - Compensation of Personnel Services	Contrary to the Special Education grant award, 11 employees were paid from the grant for unallowable services, resulting in questioned costs, totaling \$32,075.42.	Partially corrected.	The deficiencies have been corrected; however, final resolution of the questioned costs rests with the Florida Department of Education and remains unresolved.
2010-099 (3)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Special Tests and Provisions - Supplemental Educational Services	Enhancements could be made to ensure the required corrective action is properly implemented for schools in need of improvement.	Corrected.	
2010-099 (4)	Special Education Cluster (CFDA No. 84.027) and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Equipment Management	The District had not implemented controls to ensure the accountability and safeguarding of the District's tangible personal property which impact the major Federal programs.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



THE SCHOOL BOARD OF LIBERTY COUNTY

Dr. Sue Summers

Superintendent of Schools

Post Office Box 429
Bristol, Florida 32321-0429

Phone (850) 643-2275
Fax (850) 643-2533

February 24, 2011

LIBERTY COUNTY SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS
FY 09/10

Finding No. 1: Performance Assessments

District Response: We have noted the recommended changes and are working on revisions to the performance evaluations for both instructional personnel and school administrators in conjunction with Race to the Top requirements. This new instrument will be completed by June 1, 2011 and student performance will be the primary component.

Finding No. 2: Compensation and Salary Schedules

District Response: The district will adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance; and differentiated pay of instructional personnel and school-based administrators will be thoroughly researched and possibilities for future differentiation will be appropriately identified on salary schedules through the implementation of the Race to the Top initiatives.

Finding No. 3: Ad Valorem Taxation

District Response: This issue is being researched further by the Panhandle Area Educational Consortium Risk Management staff with regard to the law and its interpretation. If necessary, the funds will be restored to the LCI fund.

Finding No. 4: Information Technology – Written Policies and Procedures

District Response: We have developed an Employee Termination Checklist to be completed by management that will govern the removal of access privileges upon separation from the district. We have also implemented a New Employee Orientation Form which would ensure that appropriate access is granted when an employee is hired. We will continue to develop policies and procedures to establish proper IT controls and will closely monitor adherence to these policies.

District I
Logan E. Kever

District II
Thomas W. Dugger

District III
Darrel L. Hayes

District IV
B. Kyle Pedde

District V
Roger W. Reddick

An Equal Opportunity Employer / Provider—Drug Free Workplace

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Finding No. 5: Information Technology – Review of Access Privileges

District Response: Procedures have been implemented in February of 2010 and we will strive to follow it more closely during the next fiscal year. Monthly reports of MIS and TERMS access will be printed by Jason Fowler, Information Security Administrator and provided to Stephanie Hofheinz, Information Security Manager for review.

Finding No. 6 Information Technology – Timely Removal of Former Employee Access

District Response: We have developed an Employee Termination Checklist to be completed by management that will ensure the timely removal of access privileges of terminated employees.

Federally Financed Programs

Finding No. 1: Level of Effort – Maintenance of Effort

District Response: The Liberty County School District has always placed a great importance on the education of exceptional student education (ESE) in our district. However, during the 09/10 school year, our ESE population decreased. Due to budget constraints, we also used funds provided by the American Recovery and Reinvestment Act (ARRA) to pay salaries and benefits for ESE personnel to the extent possible. The Department of Juvenile Justice facilities in our district have also experienced a drastic decline during the past fiscal year. We will monitor ESE expenditures more closely during the 10/11 Fiscal Year. We will consult with Department of Education staff regarding this issue and if necessary, we will restore questioned costs to the program.

Contact Information:

If you have additional questions or concerns regarding this audit response, please contact Stephanie Hofheinz, Finance Director for the Liberty County School Board at (850) 643-2275, ext. 225 or via e-mail at Stephanie.hofheinz@lcsbonline.org.

Sincerely:



Dr. Sue Summers, Superintendent
Liberty County District School Board