

**JACKSON COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2012



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Dr. Terry E. Nichols	1
Kenneth R. Griffin, Vice Chair from 11-22-11	2
Betty B. Duffee	3
Chris M. Johnson, Vice Chair to 11-21-11, Chair from 11-22-11	4
Charlotte M. Gardner, Chair to 11-21-11	5

Lee W. Miller, 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 Shelly G. Curti, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness as summarized below.

MATERIAL WEAKNESS

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

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

ADDITIONAL MATTERS

Finding No. 2: The District needed to enhance controls over food service clearing accounts.

Finding No. 3: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: Controls over contractual payment processing needed to be enhanced.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Special Education Cluster; and Race-to-the-Top Incentive Grant programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-080.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards.

We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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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 Jackson County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 42 percent of the assets and 99 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the 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 Jackson County District School Board as of June 30, 2012, 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 Jackson County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Respectfully submitted,



David W. Martin, CPA
February 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Jackson County District School Board has prepared the following discussion and analysis to (a) assist the reading 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 deviations from the approved budget; and (e) highlight significant issues in individual funds.

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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- Net assets total \$81,668,442.35, a decrease of \$5,970,520.63, or 7 percent less than the prior fiscal year. Total assets, however, decreased by \$7,286,403.23, or 7 percent during the year and total \$96,929,256.35 at June 30, 2012.
- General revenues total \$56,463,049.58, or 93 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$4,332,535.95, or 7 percent of all revenues.
- Expenses total \$66,766,106.16. Only \$4,332,535.95 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the fiscal year, the fund balance of the General Fund totals \$14,986,621.63 at June 30, 2012, or 33 percent of total General Fund revenues. This fund balance includes \$61,471.06 of nonspendable funds, \$3,270,789.96 of restricted funds, \$2,784,177.15 of assigned funds, and \$8,870,183.46 of unassigned funds.
- Governmental Accounting Standards Board Statement No. 45 requires the District to disclose a liability at June 30, 2012, which represents its obligation for postemployment benefits for retirees. This is an estimated amount, and there is currently no available budget to fund the liability.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. 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 nonfiduciary activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are included. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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 – Food Service Fund, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General 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, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year	
	Governmental Activities	
	<u>6-30-12</u>	<u>6-30-11</u>
Current and Other Assets	\$ 17,823,720.64	\$ 21,929,672.28
Capital Assets	<u>79,105,535.71</u>	<u>82,285,987.30</u>
Total Assets	<u>96,929,256.35</u>	<u>104,215,659.58</u>
Long-Term Liabilities	14,390,145.51	15,632,374.64
Other Liabilities	<u>870,668.49</u>	<u>944,321.96</u>
Total Liabilities	<u>15,260,814.00</u>	<u>16,576,696.60</u>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	69,582,794.73	71,558,169.27
Restricted	4,976,553.33	4,720,679.35
Unrestricted	<u>7,109,094.29</u>	<u>11,360,114.36</u>
Total Net Assets	<u><u>\$ 81,668,442.35</u></u>	<u><u>\$ 87,638,962.98</u></u>

The largest portion of the District’s net assets (85 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment; motor vehicles; and computer software), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets (6 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (9 percent) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental	
	Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	\$ 1,124,505.90	\$ 1,140,288.23
Operating Grants and Contributions	2,915,367.97	2,683,535.22
Capital Grants and Contributions	292,662.08	764,526.58
General Revenues:		
Property Taxes, Levied for Operational Purposes	9,704,986.53	9,795,708.55
Property Taxes, Levied for Capital Projects	390,359.75	
Local Sales Taxes	2,013,150.31	1,994,383.96
Grants and Contributions Not Restricted to Specific Programs	43,214,994.31	50,274,646.14
Unrestricted Investment Earnings	30,137.65	136,383.98
Miscellaneous	1,109,421.03	1,034,072.84
Total Revenues	60,795,585.53	67,823,545.50
Functions/Program Expenses:		
Instruction	32,905,562.84	35,025,926.59
Pupil Personnel Services	3,436,686.28	3,638,322.75
Instructional Media Services	729,004.58	785,513.30
Instruction and Curriculum Development Services	1,670,722.30	1,686,250.85
Instructional Staff Training Services	537,374.33	759,689.64
Instruction Related Technology	921,132.60	1,066,943.19
School Board	428,999.30	442,202.55
General Administration	611,714.64	667,581.46
School Administration	3,764,115.01	3,904,397.42
Facilities Acquisition and Construction	347,429.71	357,905.69
Fiscal Services	380,834.69	426,119.95
Food Services	3,937,560.69	3,901,959.62
Central Services	515,098.89	531,140.69
Pupil Transportation Services	3,947,707.98	3,858,909.93
Operation of Plant	5,669,268.18	6,156,621.26
Maintenance of Plant	1,913,460.73	2,057,968.02
Administrative Technology Services	685,999.88	575,428.13
Community Services	48,655.85	81,513.87
Unallocated Interest on Long-Term Debt	445,572.59	494,218.53
Unallocated Depreciation Expense	3,868,307.06	3,037,891.64
Loss on Disposal of Capital Assets	898.03	
Total Functions/Program Expenses	66,766,106.16	69,456,505.08
Decrease in Net Assets	\$ (5,970,520.63)	\$ (1,632,959.58)

Revenues totaled \$60,795,585.53 for the 2011-12 fiscal year, a decrease from the prior fiscal year of \$7,027,959.97. The largest source was grants and contributions not restricted to specific programs, which consisted primarily of State

and Federal revenues. State revenue totaled \$35,590,914.82, or 59 percent of total revenue. 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. State FEFP and categorical and other earmarked FEFP formula funds totaled \$32,748,238, a decrease of \$2,503,937 from the prior fiscal year. The remaining decrease in grants and contributions not restricted to specific programs is specifically related to the decrease in Federal economic stimulus funds.

Government-wide expenditures decreased \$2,690,398.92 from the 2010-11 fiscal year and totaled \$66,766,106.16 during the 2011-12 fiscal year. Classroom instruction and instructional support expenditures represent 60 percent of these expenditures and total \$40,200,482.93, a decrease of \$2,762,163.39, or approximately 6 percent from the prior fiscal year. The decrease is due, in part, to the reduction of Federal economic stimulus program funds.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$8,870,183.46, while the total fund balance is \$14,986,621.63. Total fund balance decreased by \$3,956,067.98 during the fiscal year.

General Fund revenues totaled \$46,026,875.15, which is a decrease of \$3,070,918.33 from the prior fiscal year. The decrease in revenue is due, in part, to a reduction in FEFP, categorical, and other earmarked FEFP formula funds. As noted earlier, the overall FEFP calculation (which includes local property tax revenue) and categorical formula funds decreased \$2,503,937. In addition, adults with disabilities State grants decreased by \$310,152.56.

The Special Revenue – Food Service Fund accounts for operations of the food service program and has a zero fund balance, a decrease of \$20,331.24 from the previous fiscal year. This decrease is due to several nonroutine expenditures in the current fiscal year including point-of-sale system software upgrades and replacement of food service equipment.

The Special Revenue – Other Fund and Special Revenue – Federal Economic Stimulus Fund each have a zero fund balances at the end of the current fiscal year. The District uses these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance. There was a significant decrease in activity in the Special Revenue - Federal Economic Stimulus Fund due to several economic stimulus grant programs ending in the prior fiscal year.

The Capital Projects – Other Fund accounts for funds generated through the District's local sales tax levy. The total fund balance for the Capital Projects – Other Fund is \$1,023,287.11, which decreased \$101,160.45 from the prior fiscal year due, in part, to a transfer to the Debt Service – Other Fund for the annual sales tax bond payment.

GENERAL FUND BUDGETARY HIGHLIGHTS

While the original budgeted revenues were in line with final budgeted amounts, the final budgeted expenditures were \$329,245.38 less than the original budgeted amounts. Actual revenues exceeded budgeted amounts by \$5,626.33, while actual expenditures were \$744,718.88 less than the final budgeted amounts. There were no over expenditures in any of the functional categories.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$79,105,535.71 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; audio visual materials; and computer software.

Major capital asset events during the current fiscal year included the following renovation projects:

- Renovations were completed on the cafeteria building at Riverside Elementary School.
- Completion of waste water connection at the Grand Ridge School.

Additional information on the District's capital assets can be found in notes 4, 5, and 14, to the financial statements.

Long-Term Debt

At June 30, 2012, the District has bonds payable of \$9,495,000. This total includes the following balances:

- \$4,920,000 in District Revenue and Refunding Bonds, Series 2003, to provide for capital construction projects;
- \$1,245,000 for debt issued on behalf of the District by the State Board of Education and administered by the State Board of Administration; and
- \$3,330,000 in Sales Tax Revenue Bond, Series 2010 (Build America Bonds). Under the Federal Build America Bonds program, a portion of the amount of each interest payment (35 percent) is credited to the issuer from the United States Treasury upon proper application. These bonds were issued to provide for the HVAC replacement/lighting retrofit project at the various Districtwide locations.

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 Jackson County District School Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Jackson County District School, P. O. Box 5958, Marianna, FL 32447.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 12,132,552.81
Investments	5,162,748.17
Taxes Receivable	45,219.04
Accounts Receivable	67,758.34
Due from Other Agencies	256,885.11
Inventories	158,557.17
Capital Assets:	
Nondepreciable Capital Assets	1,013,520.22
Depreciable Capital Assets, Net	<u>78,092,015.49</u>
TOTAL ASSETS	<u>\$ 96,929,256.35</u>
LIABILITIES	
Payroll Deductions and Withholdings	\$ 467,386.31
Accounts Payable	337,862.42
Construction Contracts Payable	38,996.24
Construction Contracts Payable - Retainage	4,332.91
Due to Other Agencies	650.00
Deposits Payable	897.21
Deferred Revenue	20,543.40
Long-Term Liabilities:	
Portion Due Within One Year	1,614,475.56
Portion Due After One Year	<u>12,775,669.95</u>
Total Liabilities	<u>15,260,814.00</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	69,582,794.73
Restricted for:	
State Required Carryover Programs	3,270,789.96
Debt Service	287,115.92
Capital Projects	1,418,647.45
Unrestricted	<u>7,109,094.29</u>
Total Net Assets	<u>81,668,442.35</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 96,929,256.35</u>

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

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 32,905,562.84	\$ 209,713.05	\$	\$ (32,695,849.79)
Pupil Personnel Services	3,436,686.28			(3,436,686.28)
Instructional Media Services	729,004.58			(729,004.58)
Instruction and Curriculum Development Services	1,670,722.30			(1,670,722.30)
Instructional Staff Training Services	537,374.33			(537,374.33)
Instruction Related Technology	921,132.60			(921,132.60)
School Board	428,999.30			(428,999.30)
General Administration	611,714.64			(611,714.64)
School Administration	3,764,115.01			(3,764,115.01)
Facilities Acquisition and Construction	347,429.71		51,121.37	(296,308.34)
Fiscal Services	380,834.69			(380,834.69)
Food Services	3,937,560.69	914,792.85	2,915,367.97	(107,399.87)
Central Services	515,098.89			(515,098.89)
Pupil Transportation Services	3,947,707.98			(3,947,707.98)
Operation of Plant	5,669,268.18			(5,669,268.18)
Maintenance of Plant	1,913,460.73			(1,913,460.73)
Administrative Technology Services	685,999.88			(685,999.88)
Community Services	48,655.85			(48,655.85)
Unallocated Interest on Long-Term Debt	445,572.59		241,540.71	(204,031.88)
Unallocated Depreciation Expense*	3,868,307.06			(3,868,307.06)
Loss on Disposal of Capital Assets	898.03			(898.03)
Total Governmental Activities	\$ 66,766,106.16	\$ 1,124,505.90	\$ 2,915,367.97	\$ 292,662.08
General Revenues:				
Taxes:				
				9,704,986.53
				390,359.75
				2,013,150.31
				43,214,994.31
				30,137.65
				1,109,421.03
Total General Revenues				56,463,049.58
Change in Net Assets				(5,970,520.63)
Net Assets - Beginning				87,638,962.98
Net Assets - Ending				\$ 81,668,442.35

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
ASSETS			
Cash and Cash Equivalents	\$ 10,109,446.18	\$ 6,468.97	\$ 2,000.00
Investments	5,064,410.56		
Taxes Receivable	43,453.92		
Accounts Receivable	66,575.97	282.37	
Due from Other Funds	161,894.29	77,760.44	320.48
Due from Other Agencies	191,145.98	17,416.74	41,223.03
Inventories	61,471.06	97,086.11	
	\$ 15,698,397.96	\$ 199,014.63	\$ 43,543.51
TOTAL ASSETS			
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 467,386.31	\$ 60,582.72	\$ 15,722.18
Accounts Payable	163,142.45		
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	78,080.92	119,507.95	27,821.33
Due to Other Agencies	650.00		
Deposits Payable	897.21		
Deferred Revenue	1,619.44	18,923.96	
	711,776.33	199,014.63	43,543.51
Total Liabilities			
Fund Balances:			
Nonspendable:			
Inventory	61,471.06	97,086.11	
Restricted for:			
State Required Carryover Programs	3,270,789.96		
Debt Service			
Capital Projects			
Total Restricted Fund Balance	3,270,789.96		
Assigned to:			
DROP Program	1,180,945.34		
School Budgets	903,231.81		
Sunland Program	200,000.00		
Debt Service			
Capital Outlay	500,000.00		
Total Assigned Fund Balance	2,784,177.15		
Unassigned Fund Balance	8,870,183.46	(97,086.11)	
	14,986,621.63		
Total Fund Balances			
	\$ 15,698,397.96	\$ 199,014.63	\$ 43,543.51
TOTAL LIABILITIES AND FUND BALANCES			

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

Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,000.00	\$ 1,112,400.21 52,471.12	\$ 901,237.45 45,866.49 1,765.12	\$ 12,132,552.81 5,162,748.17 45,219.04 66,858.34 239,975.21 256,885.11 158,557.17
7,099.36			
<u>\$ 8,099.36</u>	<u>\$ 1,164,871.33</u>	<u>\$ 948,869.06</u>	<u>\$ 18,062,795.85</u>
\$ 160.00	\$ 98,255.07 38,996.24 4,332.91	\$ 5,725.65	\$ 467,386.31 337,862.42 38,996.24 4,332.91 239,075.21 650.00 897.21 20,543.40
7,939.36			
<u>8,099.36</u>	<u>141,584.22</u>	<u>5,725.65</u>	<u>1,109,743.70</u>
			158,557.17
			3,270,789.96
		287,115.92	287,115.92
	1,023,287.11	395,360.34	1,418,647.45
	<u>1,023,287.11</u>	<u>682,476.26</u>	<u>4,976,553.33</u>
			1,180,945.34
			903,231.81
			200,000.00
		260,667.15	260,667.15
			500,000.00
		<u>260,667.15</u>	<u>3,044,844.30</u>
			<u>8,773,097.35</u>
	1,023,287.11	943,143.41	16,953,052.15
<u>\$ 8,099.36</u>	<u>\$ 1,164,871.33</u>	<u>\$ 948,869.06</u>	<u>\$ 18,062,795.85</u>

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

Total Fund Balances - Governmental Funds \$ 16,953,052.15

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. 79,105,535.71

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

Obligation Under Capital Lease	\$ 27,740.98	
Bonds Payable	9,495,000.00	
Compensated Absences Payable	3,749,110.53	
Other Postemployment Benefits Payable	1,118,294.00	(14,390,145.51)

Total Net Assets - Governmental Activities \$ 81,668,442.35

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

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

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$	\$	\$ 1,793,181.00
Federal Through State and Local State	275,179.84	2,854,617.97	5,165,541.97
	34,869,030.16	62,070.00	
Local:			
Property Taxes	9,704,986.53		
Local Sales Taxes			
Charges for Services - Food Service		914,792.85	
Miscellaneous	1,177,678.62	53,571.87	1,778.40
Total Local Revenues	<u>10,882,665.15</u>	<u>968,364.72</u>	<u>1,778.40</u>
Total Revenues	<u>46,026,875.15</u>	<u>3,885,052.69</u>	<u>6,960,501.37</u>
Expenditures			
Current - Education:			
Instruction	27,594,569.55		4,931,284.81
Pupil Personnel Services	3,214,738.81		232,032.00
Instructional Media Services	739,071.68		
Instruction and Curriculum Development Services	979,464.02		559,888.14
Instructional Staff Training Services	124,281.80		334,277.88
Instruction Related Technology	761,909.36		159,587.47
School Board	427,938.55		
General Administration	317,016.72		275,958.84
School Administration	3,710,994.76		83,886.00
Facilities Acquisition and Construction	349,376.03		1,260.00
Fiscal Services	384,130.84		
Food Services	59,016.09	3,857,444.97	21,213.00
Central Services	505,893.85		15,100.10
Pupil Transportation Services	3,014,783.83		210,245.03
Operation of Plant	5,600,083.34		70,659.65
Maintenance of Plant	1,934,828.70		482.70
Administrative Technology Services	557,175.28		
Community Services	49,496.40		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	58,650.00		
Other Capital Outlay	177,155.13	47,938.96	74,685.80
Debt Service:			
Principal	20,077.05		
Interest and Fiscal Charges	1,798.95		
Total Expenditures	<u>50,582,450.74</u>	<u>3,905,383.93</u>	<u>6,970,561.42</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,555,575.59)</u>	<u>(20,331.24)</u>	<u>(10,060.05)</u>
Other Financing Sources (Uses)			
Transfers In	563,804.89		
Insurance Loss Recoveries	35,702.72		
Transfers Out			
Total Other Financing Sources (Uses)	<u>599,507.61</u>		
Net Change in Fund Balances	<u>(3,956,067.98)</u>	<u>(20,331.24)</u>	<u>(10,060.05)</u>
Fund Balances, Beginning	18,942,689.61	20,331.24	10,060.05
Fund Balances, Ending	<u>\$ 14,986,621.63</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 692,090.21	\$	\$ 51,498.55	\$ 1,793,181.00
		659,814.66	9,038,928.54
			35,590,914.82
	2,013,150.31	390,359.75	10,095,346.28
			2,013,150.31
	7,060.06	2,534.91	914,792.85
	<u>2,020,210.37</u>	<u>392,894.66</u>	<u>1,242,623.86</u>
<u>692,090.21</u>	<u>2,020,210.37</u>	<u>1,104,207.87</u>	<u>14,265,913.30</u>
316,584.10			32,842,438.46
8,931.80			3,455,702.61
			739,071.68
131,378.98			1,670,731.14
79,457.34			538,017.02
			921,496.83
			427,938.55
17,667.34			610,642.90
			3,794,880.76
			350,636.03
			384,130.84
			3,937,674.06
209.69			521,203.64
			3,225,028.86
			5,670,742.99
			1,935,311.40
135,000.01			692,175.29
			49,496.40
	977,678.61		1,036,328.61
2,860.95			302,640.84
		1,185,000.00	1,205,077.05
		443,773.64	445,572.59
<u>692,090.21</u>	<u>977,678.61</u>	<u>1,628,773.64</u>	<u>64,756,938.55</u>
	<u>1,042,531.76</u>	<u>(524,565.77)</u>	<u>(4,068,000.89)</u>
		1,022,138.75	1,585,943.64
	(1,143,692.21)	(442,251.43)	35,702.72
	<u>(1,143,692.21)</u>	<u>579,887.32</u>	<u>(1,585,943.64)</u>
			35,702.72
	(101,160.45)	55,321.55	(4,032,298.17)
	<u>1,124,447.56</u>	<u>887,821.86</u>	<u>20,985,350.32</u>
<u>\$ 0.00</u>	<u>\$ 1,023,287.11</u>	<u>\$ 943,143.41</u>	<u>\$ 16,953,052.15</u>

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

Net Change in Fund Balances - Governmental Funds \$ (4,032,298.17)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense and adjustments in excess of capital outlays and adjustments in the current fiscal year. (3,179,553.56)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (898.03)

Repayment of long-term debt is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of long-term debt that was repaid in the current fiscal year.

Capital Lease Payments	\$ 20,077.05	
Bond Payments	<u>1,185,000.00</u>	1,205,077.05

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 337,148.08

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. (299,996.00)

Change in Net Assets - Governmental Activities \$ (5,970,520.63)

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

**JACKSON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 699,479.00
Accounts Receivable	869.15
TOTAL ASSETS	\$ 700,348.15
LIABILITIES	
Accounts Payable	\$ 1,933.54
Due to Other Funds	900.00
Internal Accounts Payable	697,514.61
TOTAL LIABILITIES	\$ 700,348.15

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Presentation:

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

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

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

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

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

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

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 – Food Service Fund – to account for the District’s Food Service Program.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act and other Federal stimulus programs.
- Capital Projects – Other Fund – to account for the financial resources generated by the local sales tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects, and computer hardware and software purchases.

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

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

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 money market mutual fund, amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, and certificates of deposit.

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

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

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

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

Investments made locally consist of an intergovernmental investment pool, a United States Treasury Note, a money market mutual fund consisting of United States Government agency securities and repurchase agreements, and certificates of deposit. All are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased, except for transportation materials and supplies. Transportation materials and supplies are recorded as expenditures when purchased. However, expenditures are adjusted at June 30 to properly reflect the cost of the inventory in the General Fund for those transportation items on hand as of June 30.

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

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

recorded at fair value at the date of donation. Certain capital assets acquired or constructed prior to July 1, 1983, are stated at estimated historical costs using price levels at the time of acquisition and, as a result, \$11,415 of stated land values; \$1,391,289.51 of stated building values; and \$12,152.60 of stated improvements other than buildings values, are based on these estimates.

As of June 30, 2012, the reported value of capital assets includes amounts capitalized for improvements to the property acquired under a 50-year operating lease with the Florida Department of Education as follows: buildings, \$926,941.82 and improvements other than buildings, \$64,169.07. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	8 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of the FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months

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

following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

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

The Board adopted the 2011 tax levy on September 15, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

Capital Outlay Surtax. In November 2005, the voters of Jackson County (County) approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2006, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

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

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 2,600,642.30
Fund B	5.73 Year Average	96,053.84
Debt Service Accounts	6 Months	35,627.16
Florida Fixed Income Trust (FIT):		
Florida FIT 90	206 Days	1,508,644.07
Florida FIT 180	434 Days	2,521,681.10
Money Market Mutual Fund:		
Goldman Sachs (1)	1 Day Average	2,521,442.05
United States Treasury Note	October 2012	1,000,742.00
Certificates of Deposit (1)	November 2012 to April 2013	83,071.96
Total Investments		\$ 10,367,904.48

Note: (1) These investments are reported as cash equivalents for financial statement reporting purposes.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits the length of investments as follows: (1) investments of current operating funds shall have maturities of no longer than two years, and (2) investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate for the need for the funds and in accordance with debt covenants, but in no event shall exceed five years.

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

As of June 30, 2012, the District has the following interest rate risk by fund:

Investment by Fund	Fair Value	Investment Maturities		
		Six Months or Less	Greater Than Six Months to Two Years	Greater Than Two Years
Major Governmental Funds:				
General	\$ 9,640,168.37	\$ 5,576,499.81	\$ 4,030,325.17	\$ 33,343.39
Nonmajor Governmental Funds	644,664.15	581,953.70		62,710.45
Fiduciary Funds	83,071.96	71,056.51	12,015.45	
Total Investments	\$ 10,367,904.48	\$ 6,229,510.02	\$ 4,042,340.62	\$ 96,053.84

Note: Investments that have original maturities of three months or less are considered cash equivalents for financial statement purposes.

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits investments to the SBA's Florida PRIME; direct obligations of United States Government agencies; certain Federal instrumentalities, interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; repurchase agreements secured by the collateral composed of negotiable direct obligations of the United States Government, United States Government agencies, and Federal instrumentalities that have a market value of 102 percent of the value of the repurchase agreement; commercial paper of the highest credit rating; certain banker's acceptances; certain highly rated state and local government taxable or tax-exempt debt; shares of open-end, no-load mutual funds registered under the Investment Company Act of 1940, provided that the portfolio invests primarily in short-term government bonds and money market funds operated in accordance with Title 17, Section 270.2a-7, Code of Federal Regulations, and provided the mutual fund is rated AA+ and the money market is rated AAM or AAM-G or better by Standard & Poor's, or the equivalent by another rating agency; and any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes, provided that said funds contain no derivatives. Investment in any derivative products or the use of reverse repurchase agreements requires specific Board approval.

The District's investment in Florida PRIME is rated AA+ by Standard & Poor's. Fund B is unrated. The District's investments in Florida FIT are unrated. The District's investments in the Goldman Sachs Money Market Mutual Fund were rated AAM by Standard & Poor's.

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

The District's investments in certificates of deposit are in qualified public depositories.

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that securities shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District, should be properly designated as an asset of the District. As of June 30, 2012, all investments are held with an appropriate custodian or trustee or are held in accounts in the name of and belonging to the District.

All District investments are in compliance with District policy in relation to interest rate risk, credit risk, and custodial credit risk with the exception of Fund B, in which the District is an involuntary participant.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Adjustments (1)	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	\$ 817,412.42	\$	\$	\$	\$ 817,412.42
Construction in Progress	217,371.79		318,336.17	339,600.16	196,107.80
Total Capital Assets Not Being Depreciated	1,034,784.21		318,336.17	339,600.16	1,013,520.22
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	3,588,333.96	1,754.00			3,590,087.96
Buildings and Fixed Equipment	102,568,926.33	(109,987.14)	1,133,935.23		103,592,874.42
Furniture, Fixtures, and Equipment	7,349,570.94	113,450.47	207,669.12	439,143.16	7,231,547.37
Motor Vehicles	8,733,943.52	75,507.00	4,327.00	1,540.94	8,812,236.58
Property Under Capital Lease	97,070.00				97,070.00
Audio Visual Materials	33,480.15	20,206.45	14,302.09		67,988.69
Computer Software	1,560,527.87	(29,985.63)		47,972.38	1,482,569.86
Total Capital Assets Being Depreciated	123,931,852.77	70,945.15	1,360,233.44	488,656.48	124,874,374.88
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	2,526,095.38	(13,457.74)	133,788.15		2,646,425.79
Buildings and Fixed Equipment	28,492,019.21	(150,665.25)	2,781,703.89		31,123,057.85
Furniture, Fixtures, and Equipment	5,364,515.60	416,269.78	510,978.24	438,245.13	5,853,518.49
Motor Vehicles	4,895,425.05	77,258.45	658,748.46	1,540.94	5,629,891.02
Property Under Capital Lease	29,121.00		9,707.00		38,828.00
Audio Visual Materials	28,126.66	9,867.88	5,500.75		43,495.29
Computer Software	1,345,346.78	96,173.25	53,595.30	47,972.38	1,447,142.95
Total Accumulated Depreciation	42,680,649.68	435,446.37	4,154,021.79	487,758.45	46,782,359.39
Total Capital Assets Being Depreciated, Net	81,251,203.09	(364,501.22)	(2,793,788.35)	898.03	78,092,015.49
Governmental Activities Capital Assets, Net	\$ 82,285,987.30	\$ (364,501.22)	\$ (2,475,452.18)	\$ 340,498.19	\$ 79,105,535.71

Note: (1) Capital assets and accumulated depreciation includes adjustments totaling \$70,945.15 and \$435,446.37, respectively, to correct errors in the capital assets and depreciation schedules, respectively, for certain assets.

The class of property under capital lease is presented in note 5.

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 721,161.10
Unallocated	3,868,307.06
Total Depreciation Expense - Governmental Activities	\$ 4,589,468.16

**JACKSON COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

5. OBLIGATION UNDER CAPITAL LEASE

The class and amount of property being acquired under capital lease is as follows:

	<u>Asset Balance</u>
Motor Vehicle - Dump Truck	<u>\$ 97,070.00</u>

Future minimum capital lease payments and the present value of the minimum lease payments as of June 30 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 21,876.00	\$ 21,018.25	\$ 857.75
2014	6,791.96	6,722.73	69.23
Total Minimum Lease Payments	<u>\$ 28,667.96</u>	<u>\$ 27,740.98</u>	<u>\$ 926.98</u>

6. BONDS PAYABLE

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005B, Refunding	\$ 1,155,000	5.0	2018
Series 2009A, Refunding	90,000	4.0 - 5.0	2019
District Revenue and Refunding Bonds:			
Series 2003	4,920,000	3.50 - 4.75	2033
Sales Tax Bond:			
Series 2010 (1)	3,330,000	3.69	2015
Total Bonds Payable	<u>\$ 9,495,000</u>		

Notes: (1) Build America Bonds - Stated interest rate is 3.69 percent. The effective interest rate is 2.398 percent, which is net of the direct subsidy payments.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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➤ District Revenue and Refunding Bonds

These bonds are generally referred to as Capital Improvement Revenue and Refunding Bonds, Series 2003, and are authorized by Chapter 73-498, Special Acts of 1973, as amended by Chapter 74-501, Special Acts of 1974, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Jackson 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)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The District has pledged as sole security for the bonds, the entire annual distribution of pari-mutuel tax proceeds of \$371,500, which is remitted by the Florida Department of Financial Services to the District. The pledged revenue is committed until final maturity of the debt, or December 1, 2033. Approximately 98 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds. 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.

The Series 2003 bonds, totaling \$6 million, were issued to provide funds, together with other available funds of the Board, sufficient to refund the District's outstanding Refunding Revenue Bonds, Series 1987, and Series 1994; finance the costs of acquisition, construction, and installation of, and renovation to, certain capital improvements and educational facilities within the District, and pay costs associated with the issuance of the bonds.

➤ Sales Tax Revenue Bonds of 2010 (Build America Bonds)

These bonds are issued pursuant to and under the authority of the Constitution and the laws of the State of Florida, Chapters 1000 through 1013, Florida Statutes, Section 212.055, Florida Statutes, and other applicable provisions of law, and Resolution No. 02-16-10-01 passed and adopted by the Board as the governing body of the District on February 16, 2010. The District issued the bonds in the amount of \$5,050,000, to provide for the deposit of moneys to various funds and accounts established pursuant to the resolution to pay for the acquisition, construction, and improvements to various HVAC and lighting upgrades throughout the District and to pay the costs of issuing the bonds. The District has pledged, as sole security for the bonds, all amounts collected from the half-cent local option sales tax which became effective January 1, 2006, and will expire on December 31, 2015. The pledged revenue is committed until final maturity of the debt on September 1, 2015. Pursuant to the bond resolution, no reserve account is required. Instead, the District will transfer pledged funds to a debt service fund to provide payment of debt service on the bonds.

The District has elected to treat the bonds as Build America Bonds within the meaning of Section 54AA(d) of the Internal Revenue Code of 1986, as amended. Consequently, the District is eligible to receive refundable tax credits (interest subsidy payments) from the United States Treasury pursuant to the provisions of Section 6431 of the Internal Revenue Code. The interest subsidy payments are equal to 35 percent of each semiannual interest payment made according to the debt service schedule.

**JACKSON COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 237,100.00	\$ 175,000.00	\$ 62,100.00
2014	243,500.00	190,000.00	53,500.00
2015	239,000.00	195,000.00	44,000.00
2016	244,250.00	210,000.00	34,250.00
2017	248,750.00	225,000.00	23,750.00
2018-2020	263,250.00	250,000.00	13,250.00
Total State School Bonds	1,475,850.00	1,245,000.00	230,850.00
District Revenue Bonds:			
2013	360,527.52	140,000.00	220,527.52
2014	360,449.39	145,000.00	215,449.39
2015	360,008.76	150,000.00	210,008.76
2016	359,193.13	155,000.00	204,193.13
2017	357,990.00	160,000.00	197,990.00
2018-2022	1,789,163.75	910,000.00	879,163.75
2023-2027	1,791,893.75	1,150,000.00	641,893.75
2028-2032	1,772,131.25	1,435,000.00	337,131.25
2033-2034	707,418.75	675,000.00	32,418.75
Total District Revenue Bonds	7,858,776.30	4,920,000.00	2,938,776.30
Sales Tax Revenue Bonds:			
2013	1,024,574.50	910,000.00	114,574.50
2014	1,020,718.75	940,000.00	80,718.75
2015	1,025,663.75	980,000.00	45,663.75
2016	509,225.00	500,000.00	9,225.00
Total Sales Tax Revenue Bonds	3,580,182.00	3,330,000.00	250,182.00
Total	\$ 12,914,808.30	\$ 9,495,000.00	\$ 3,419,808.30

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

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					
Obligation Under Capital Lease	\$ 47,818.03	\$	\$ 20,077.05	\$ 27,740.98	\$ 21,018.25
Bonds Payable	10,680,000.00		1,185,000.00	9,495,000.00	1,225,000.00
Compensated Absences Payable	4,086,258.61	262,667.53	599,815.61	3,749,110.53	368,457.31
Other Postemployment Benefits Payable	818,298.00	712,295.00	412,299.00	1,118,294.00	
Total Governmental Activities	\$ 15,632,374.64	\$974,962.53	\$ 2,217,191.66	\$ 14,390,145.51	\$ 1,614,475.56

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

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	\$ 161,894.29	\$ 78,080.92
Special Revenue:		
Food Service	77,760.44	119,507.95
Other	320.48	27,821.33
Federal Economic Stimulus		7,939.36
Nonmajor Governmental		5,725.65
Fiduciary		900.00
Total	\$ 239,975.21	\$ 239,975.21

The above interfund receivables and payables primarily represent amounts due to the General Fund for expenditures incurred prior to reimbursements from outside parties and for loans to cover food service operating costs. These amounts are expected to be repaid within one year.

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 563,804.89	\$
Capital Projects:		
Other		1,143,692.21
Nonmajor Governmental	1,022,138.75	442,251.43
Total	\$ 1,585,943.64	\$ 1,585,943.64

Transfers to the General Fund were to finance maintenance projects and to pay for a portion of property casualty insurance premiums. Transfers to the nonmajor governmental funds were for sales tax revenue bond payments.

9. FUND BALANCE REPORTING

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

➤ Nonspendable

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

➤ Restricted

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

➤ Committed

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

➤ Assigned

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories. On September 11, 2012, prior to the approval of the AFR, the Board approved the following assigned balances in the General Fund: \$1,180,945.34 for DROP participants;

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

\$500,000 for school furniture and equipment; \$200,000 for the Sunland program; and \$903,231.81 for the roll forward of unspent school budgets.

➤ Unassigned

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 25,260,302.00
Categorical Educational Program - Class Size Reduction	7,076,405.00
Adults with Disabilities	1,199,114.00
Workforce Development Program	433,834.00
Voluntary Prekindergarten	405,614.50
School Recognition	390,992.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	292,689.50
Food Service Supplement	60,750.00
Miscellaneous	471,213.82
Total	<u><u>\$ 35,590,914.82</u></u>

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 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.457	\$ 8,707,556.65
Basic Discretionary Local Effort	0.748	1,193,559.17
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.250	398,916.83
Total	<u>6.455</u>	<u>\$ 10,300,032.65</u>

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JUNE 30, 2012**

12. FLORIDA RETIREMENT SYSTEM

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

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

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

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

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

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

Note: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$3,542,288.71, \$3,845,454.11, and \$2,544,253.57, respectively, which were equal to the required contributions for each fiscal year.

There were 83 District participants in the Investment Plan during the 2011-12 fiscal year. The District’s contributions, including employee contributions, to the Investment Plan totaled \$194,231.07, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and 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 (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District’s health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Funding Policy. Plan contribution requirements of the District and OPEB 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 OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 82 retirees received other postemployment benefits. The District provided required contributions of \$412,299 toward the annual OPEB cost. The OPEB Plan members receiving benefits contributed \$749,652 through their required contributions ranging from \$444 to \$559 per month for retiree-only coverage, and from \$935 to \$1,025 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 GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 390,600
Amortization of Unfunded Actuarial Accrued Liability	<u>320,825</u>
Annual Required Contribution	711,425
Interest on Net OPEB Obligation	29,868
Adjustment to Annual Required Contribution	<u>(28,998)</u>
Annual OPEB Cost (Expense)	712,295
Contribution Toward the OPEB Cost	<u>(412,299)</u>
Increase in Net OPEB Obligation	299,996
Net OPEB Obligation, Beginning of Year	<u>818,298</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,118,294</u></u>

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

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 656,296	61.13%	\$ 521,057
2010-11	677,504	56.13%	818,298
2011-12	712,295	57.88%	1,118,294

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$8,882,488, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,882,488 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,718,613, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.10 percent.

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

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

The District’s OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District’s 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.65 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent beginning October 1, 2010, reduced to an ultimate rate of 5 percent after 9 years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. 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, 2012, was 26 years.

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

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

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

	Major Funds		
General	Special Revenue - Other	Capital Projects - Other	Total Governmental Funds
\$ 12,685.00	\$ 195,010.24	\$ 172,610.83	\$ 380,306.07

Construction Contracts. Encumbrances include the following major construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Graceville High School Reroofing:			
Additions and Renovations:			
General Contractor	\$ 178,854.03	\$ 43,329.15	\$ 135,524.88
Direct Purchase Orders	124,860.97	100,308.35	24,552.62
Architect	23,942.46	19,153.97	4,788.49
Total	\$ 327,657.46	\$ 162,791.47	\$ 164,865.99

15. 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 Jackson County District School Board is a member of the Panhandle Area Education Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, equipment breakdown, 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

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

composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Health and hospitalization coverage are being provided through commercial insurance with minimum deductibles for each line of coverage.

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	225,000.00	269,454.78	275,179.84	5,725.06
	35,954,805.42	34,871,916.41	34,869,030.16	(2,886.25)
Local:				
Property Taxes	9,479,297.00	9,704,986.53	9,704,986.53	
Charges for Services - Food Service				
Miscellaneous	930,735.00	1,174,891.10	1,177,678.62	2,787.52
Total Local Revenues	10,410,032.00	10,879,877.63	10,882,665.15	2,787.52
Total Revenues	46,589,837.42	46,021,248.82	46,026,875.15	5,626.33
Expenditures				
Current - Education:				
Instruction	28,244,236.00	27,635,229.28	27,594,569.55	40,659.73
Pupil Personnel Services	3,342,000.00	3,293,274.10	3,214,738.81	78,535.29
Instructional Media Services	775,000.00	750,636.35	739,071.68	11,564.67
Instruction and Curriculum Development Services	970,000.00	1,022,549.96	979,464.02	43,085.94
Instructional Staff Training Services	104,515.00	124,346.12	124,281.80	64.32
Instruction Related Technology	766,000.00	768,564.00	761,909.36	6,654.64
School Board	460,000.00	460,000.00	427,938.55	32,061.45
General Administration	360,000.00	339,200.00	317,016.72	22,183.28
School Administration	3,695,000.00	3,714,911.47	3,710,994.76	3,916.71
Facilities Acquisition and Construction	395,000.00	451,694.38	349,376.03	102,318.35
Fiscal Services	416,000.00	438,495.00	384,130.84	54,364.16
Food Services		59,016.09	59,016.09	
Central Services	475,320.00	505,893.85	505,893.85	
Pupil Transportation Services	2,995,000.00	3,062,276.20	3,014,783.83	47,492.37
Operation of Plant	6,025,000.00	5,826,521.08	5,600,083.34	226,437.74
Maintenance of Plant	2,025,200.00	1,997,230.86	1,934,828.70	62,402.16
Administrative Technology Services	529,000.00	562,381.75	557,175.28	5,206.47
Community Services	57,268.00	57,268.00	49,496.40	7,771.60
Fixed Capital Outlay:				
Facilities Acquisition and Construction		58,650.00	58,650.00	
Other Capital Outlay		177,155.13	177,155.13	
Debt Service:				
Principal	20,156.84	20,156.84	20,156.84	
Interest and Fiscal Charges	1,719.16	1,719.16	1,719.16	
Total Expenditures	51,656,415.00	51,327,169.62	50,582,450.74	744,718.88
Excess (Deficiency) of Revenues Over Expenditures	(5,066,577.58)	(5,305,920.80)	(4,555,575.59)	750,345.21
Other Financing Sources				
Transfers In	500,000.25	563,804.89	563,804.89	
Insurance Loss Recoveries		35,702.72	35,702.72	
Total Other Financing Sources	500,000.25	599,507.61	599,507.61	
Net Change in Fund Balances	(4,566,577.33)	(4,706,413.19)	(3,956,067.98)	750,345.21
Fund Balances, Beginning	18,942,689.61	18,942,689.61	18,942,689.61	
Fund Balances, Ending	\$ 14,376,112.28	\$ 14,236,276.42	\$ 14,986,621.63	\$ 750,345.21

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,747,000.00	\$ 2,854,617.97	\$ 2,854,617.97	\$	\$ 1,793,181.00	\$ 1,793,181.00	\$ 1,793,181.00	\$
65,427.00	62,070.00	62,070.00		4,614,550.00	6,051,974.19	5,165,541.97	(886,432.22)
950,400.00	914,792.85	914,792.85					
39,600.00	80,034.77	53,571.87	(26,462.90)		1,778.40	1,778.40	
990,000.00	994,827.62	968,364.72	(26,462.90)		1,778.40	1,778.40	
3,802,427.00	3,911,515.59	3,885,052.69	(26,462.90)	6,407,731.00	7,846,933.59	6,960,501.37	(886,432.22)
				4,492,080.80	5,269,807.75	4,931,284.81	338,522.94
				277,168.00	263,411.55	232,032.00	31,379.55
				632,225.00	635,483.37	559,888.14	75,595.23
				350,660.00	481,611.64	334,277.88	147,333.76
				72,160.05	163,656.80	159,587.47	4,069.33
				186,819.20	281,909.46	275,958.84	5,950.62
				83,900.00	83,986.00	83,886.00	100.00
				32,000.00	1,260.00	1,260.00	
3,822,758.24	3,883,907.87	3,857,444.97	26,462.90	20,500.00	21,213.00	21,213.00	
				8,175.00	18,317.93	15,100.10	3,217.83
				176,508.00	490,507.99	210,245.03	280,262.96
				85,295.00	70,659.65	70,659.65	
				300.00	482.70	482.70	
	47,938.96	47,938.96			74,685.80	74,685.80	
3,822,758.24	3,931,846.83	3,905,383.93	26,462.90	6,417,791.05	7,856,993.64	6,970,561.42	886,432.22
(20,331.24)	(20,331.24)	(20,331.24)		(10,060.05)	(10,060.05)	(10,060.05)	
(20,331.24)	(20,331.24)	(20,331.24)		(10,060.05)	(10,060.05)	(10,060.05)	
20,331.24	20,331.24	20,331.24		10,060.05	10,060.05	10,060.05	
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

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

	Special Revenue - Federal Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State		977,278.75	692,090.21	(285,188.54)
Local:				
Property Taxes				
Charges for Services - Food Service				
Miscellaneous				
Total Local Revenues				
Total Revenues		<u>977,278.75</u>	<u>692,090.21</u>	<u>(285,188.54)</u>
Expenditures				
Current - Education:				
Instruction		332,934.68	316,584.10	16,350.58
Pupil Personnel Services		8,932.19	8,931.80	0.39
Instructional Media Services				
Instruction and Curriculum Development Services		298,805.60	131,378.98	167,426.62
Instructional Staff Training Services		171,485.29	79,457.34	92,027.95
Instruction Related Technology				
School Board				
General Administration		26,241.81	17,667.34	8,574.47
School Administration				
Facilities Acquisition and Construction				
Fiscal Services				
Food Services				
Central Services		600.00	209.69	390.31
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services		135,418.23	135,000.01	418.22
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		2,860.95	2,860.95	
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures		<u>977,278.75</u>	<u>692,090.21</u>	<u>285,188.54</u>
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources				
Transfers In				
Insurance Loss Recoveries				
Total Other Financing Sources				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 9,113,684	\$ 9,113,684	0.0%	\$ 24,260,227	37.57%
October 1, 2010	0	8,882,488	8,882,488	0.0%	22,718,613	39.10%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 268,758.66
National School Lunch Program	10.555	300, 350	732,024.03
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	454,175.13
National School Lunch Program	10.555 (2)	300, 350	1,368,120.93
Total Child Nutrition Cluster			2,823,078.75
Florida Department of Education:			
Child Nutrition Discretionary Grants Limited Availability	10.579	371	29,039.22
Florida Department of Agriculture and Consumer Services:			
Fresh Fruit and Vegetable Program	10.582	330	2,500.00
Total United States Department of Agriculture			2,854,617.97
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,790,500.10
Special Education - Preschool Grants	84.173	267	72,879.44
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	98,607.07
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	28,836.54
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	101,556.80
Total Special Education Cluster			2,092,379.95
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,411,811.98
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223	61,300.68
Total Title I, Part A Cluster			2,473,112.66
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	196,291.40
Career and Technical Education - Basic Grants to States	84.048	161	149,083.00
Rural Education	84.358	110	79,112.52
Improving Teacher Quality State Grants	84.367	224	376,145.18
ARRA - Education Technology State Grants, Recovery Act	84.386	122	22,441.07
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	20,747.83
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211	440,038.05
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	146.97
Education Jobs Fund	84.410	541	19,972.00
Total United States Department of Education			5,869,470.63
United States Department of Health and Human Services:			
Direct:			
Head Start	93.600 (3)	N/A	1,793,181.00
Total Expenditures of Federal Awards			\$ 10,517,269.60

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. Includes \$153,529.40 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Head Start. Includes expenditures of \$1,793,181 for grant number program year 04CH0382/21.



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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 Jackson County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Jackson County District School Board's financial statements. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 22, 2013



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

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

Compliance

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

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

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

Internal Control Over Compliance

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

and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

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

Respectfully submitted,



David W. Martin, CPA
February 22, 2013

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); and State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants (CFDA No. 84.395 – ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$315,518
Auditee qualified as low-risk auditee?	No

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

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

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

Our review of the District’s 2011-12 fiscal year AFR, as submitted to the FDOE and presented for audit, disclosed that financial reporting procedures could be improved. Specifically, we noted the following errors, omissions, and misclassifications:

- Preparation of fund financial statements pursuant to GAAP requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a fund as major when the fund’s assets, liabilities, revenues, or expenditures represent at least 10 percent of the total governmental funds for these respective classifications.

District personnel did not identify and report accounts payable for construction activity performed before, and paid after, fiscal year end in the Capital Projects - Other (CPO) Fund, resulting in understatements of liabilities and related expenditures by \$98,255 each. Upon recognition of these amounts, the total liabilities of the CPO Fund exceeded 10 percent of the total governmental fund liabilities. In addition, the Special Revenue - Food Service (SRFS) Fund’s total liabilities exceeded 10 percent of the total governmental fund liabilities. The District excluded from major fund reporting the CPO Fund because of the unreported accounts payable and the SRFS Fund because of computational errors. Separately reporting major funds allows financial statement users to readily identify the District’s most significant funds and their related balances and transactions, and ensures compliance with GAAP.

- On the government-wide statement of net assets, District personnel inadvertently misclassified certain net asset accounts and other accounts, resulting in an overstatement of unrestricted net assets by \$4,606,737, and understatements of invested in capital assets, net of related debt by \$4,530,213, and other accounts by \$76,524. Misreporting net asset classifications may cause financial statement users to incorrectly assess the District’s financial position.

We extended our audit procedures to determine the adjustments necessary to properly report the accounts and transactions, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management’s responsibility to implement adequate controls over financial reporting. Similar findings were noted in our report Nos. 2011-160 and 2012-080.

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

ADDITIONAL MATTERS

Finding No. 2: Food Service Clearing Accounts

Effective internal controls require that reconciliations of bank account balances to the general ledger be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources. Section 1011.18(4), Florida Statutes, provides that only the Board Chair and Superintendent are authorized to sign checks and SBE Rule 6A-1.0012(1)(a), FAC, requires that written bank agreements be maintained to authorize monetary transactions.

The District contracted with a food service management company (FSMC) to manage the District's food service program and had eight food service clearing accounts for six schools that were not in the city that the District's primary food service bank account was located. During the 2011-12 fiscal year, two of the accounts were dormant and FSMC personnel wrote checks weekly from the other six accounts for food service collections totaling \$378,400 and deposited them in the primary food service bank account. In addition, a District finance department employee reconciled bank deposits in the primary food service account to collections recorded in the point-of-sale food service system. However, our review disclosed that controls over these accounts could be enhanced, as follows:

- Bank account balances totaled \$1,450 at June 30, 2012, for the six clearing accounts that had fiscal year activity; however, no bank account reconciliations were performed to reconcile these amounts to District records.
- Checks disbursing moneys from the clearing accounts only required signatures of the respective FSMC lunchroom managers, instead of the Board Chair and Superintendent, contrary to Section 1011.18(4), Florida Statutes.
- Contrary to SBE Rule 6A-1.0012(1)(a), FAC, bank agreements were not maintained for these clearing accounts. District personnel indicated that bank agreements to authorize the clearing accounts were unavailable as the accounts were established many years ago.

While our tests of food service revenues did not disclose any errors or fraud, such tests cannot substitute for management's responsibility to establish effective internal controls over bank transactions. Without effective controls, there is an increased risk that that errors or fraud could occur and not be promptly detected.

Subsequent to our inquiry, District personnel closed the eight clearing accounts in October 2012, and began depositing all food service collections directly into the primary food service bank account.

Recommendation: The District should continue its efforts to ensure cash is deposited in bank accounts authorized by Board-approved bank agreements, cash is disbursed using checks appropriately signed by the Board Chair and Superintendent, and bank accounts are timely reconciled to District records.

Finding No. 3: 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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon 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 established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, and for school demographics based on the school's student population. The District paid these supplements to personnel for coaching athletic activities, band and choral directors, and supervising student clubs. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on level of job performance difficulties and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that they are developing policies and procedures for differentiated pay; however, they do not expect these policies to be finalized until the 2013-14 fiscal year. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-160 and 2012-080.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 4: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine the propriety of payments for contractual services, we tested 23 payments totaling \$597,998 for 13 contracts and noted controls over 3 school resource officer (SRO) contracts could be enhanced, as follows:

- Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract dated July 2011, the Sheriff was responsible for providing services using eight SROs at District schools and was paid a total of \$304,912 for the 2011-12 fiscal year. The contract provided that the Sheriff's patrol captain would work with each principal to schedule the SRO services; however, the contract did not specify the SRO services that would be provided, the schools that would receive the services, or the expected times that the services would be performed, and District records did not evidence that principals scheduled any SRO services. Further, District personnel indicated that principals verbally approved payments for SRO services, without documenting receipt of the services using records such as SRO sign-in, sign-out sheets.
- Pursuant to Section 1006.12, Florida Statutes, the Board approved contracts dated August 2011 and September 2011, with the Cities of Marianna and Graceville, respectively, to obtain SRO services. The City of Marianna was responsible for providing services using an SRO at two schools and the District paid a total

of \$31,927 for these services for the 2011-12 fiscal year. Also, the City of Graceville was responsible for providing services using an SRO at one school, and the District paid a total of \$27,274 for these services for the 2011-12 fiscal year. Both contracts provided that principals would assign SROs their duties, which would be performed during normal school hours. While the City of Graceville contract required the SROs to perform services eight hours a day for 180 days, the City of Marianna contract did not specify the expected times the services would be provided. Further, for both contracts, District records did not evidence that principals assigned duties to SROs, and District personnel indicated that principals verbally approved payments for SRO services, without documenting receipt of the services using records such as SRO sign-in, sign-out sheets.

Without effective procedures over contracts to define services to be received and to confirm receipt of services, there is an increased risk of overpayment or that services may not be consistent with Board intentions.

Recommendation: The District should enhance its monitoring procedures over SRO services to ensure contracts adequately define services, and that services are documented as received prior to payment.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-080. The following table provides information on the District’s recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-080, Finding No. 1	Audit Report No. 2011-160, Finding No. 1
3	Audit Report No. 2012-080, Finding No. 4	Audit Report No. 2011-160, Finding No. 4

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2011-160 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education - Grants to States (CFDA No. 84.027); and Improving Teacher Quality State Grants (CFDA No. 84.367) - Allowable Costs/Cost Principles	District controls were inadequate to monitor certain Federal program salaries, benefits, and indirect costs, resulting in questioned costs of \$161,852.30.	Corrected.	The District enhanced procedures. The grantor did not require restoration of questioned costs.
2011-160 (2)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility	District procedures did not ensure that Title I schoolwide program resources were properly allocated to, and used at, schools with the greatest need, resulting in \$143,386.36 of questioned costs.	Corrected.	The District enhanced procedures. The grantor did not require restoration of questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF JACKSON COUNTY



Steve R. Benton Sr.
Superintendent of Schools

2903 Jefferson Street
P. O. Box 5958
Marianna, Florida 32447
Telephone 850-482-1200
Fax 850-482-1299

February 22, 2013

Subject: District Response to Preliminary and Tentative Audit Findings for the
Year Ended 6/30/12.

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

Dear Mr. Martin:

In regard to your letter dated January 23, 2013, please find the enclosed response to the
"Preliminary and Tentative Audit Findings" for the Jackson County School District for
the fiscal year ended June 30, 2012.

We would like to thank your staff for their usual courtesy and professionalism during the
course of the audit. Please call me if you have questions or comments.

Sincerely,

Steve R. Benton
Superintendent

Attachment: Jackson County DSB Response

Terry E. Nichols
District 1

Kenneth R. Griffin
District 2

Stacey B. Goodson
District 3

Chris M. Johnson
District 4

Charlotte M. Gardner
District 5

An Equal Opportunity Employer

**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**

JACKSON COUNTY SCHOOL BOARD
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

MATERIAL WEAKNESS:

Finding No. 1: Financial Reporting

The District will strengthen its personnel in procedures for preparation of the annual financial statements to ensure the accuracy of reporting.

ADDITIONAL MATTERS:

Finding No. 2: Food Service Clearing Accounts

The District will continue its efforts to ensure cash is deposited into accounts that have Board-approved agreements, and statements are reconciled timely. The District has closed these clearing accounts.

Finding No. 3: Compensation and Salary Schedules

District committees are developing a set of criteria that would ensure that differentiated pay of instructional personnel is appropriately identified on salary schedules.

Finding No. 4: Contractual Services

The District will continue to enhance the monitoring and documentation of SRO services to ensure the contracts define services as received prior to payment.